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CONTENTS

2

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Rate of Capitalization
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VOL. V, No. 3 JULY, 1937

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The President's Message

ONCE again appraisers are under pressure to certify to unwarrantedly high estimates of real estate value.

Such pressure, in many instances, comes from lending institutions who are competing for mortgages. One might think that the bitter consequences of over-financing during the middle twenties had taught both the mortgage broker and the investor that security is not created by instructed appraisals. It seems that there are many who did not learn this lesson.

The accumulation of enormous quantities of idle funds in the treasuries of financial institutions whose prosperity is jeopardized unless such funds are promptly invested does create serious problems. They are less serious, however, than the problems that inevitably arise as the result of unsound investments, which, on occasion, may be attributed to improper appraisals.

The real estate appraiser, as such, is not concerned with the lending policies and practices of the financial institutions for whom he makes value estimates. He is concerned, however, with the reliability of the certificate of value which he signs. His certificate is worth nothing unless anyone, and everyone, is fully justified in having implicit confidence in its integrity.

Investors can have faith in appraisals signed by M. A. I.'s. Members of the Institute have qualified not only as to competency but also as to honesty. They have the spirit of the scientist in doing their work thoroughly and the pride of the professional man in doing it impartially. They do not make instructed appraisals.

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Volume V JULY, 1937 Number 3

CONTENTS

With The Editors 208
Rate of Capitalization . . . . . THURSTON H. ROSS, M.A.I. . 211
The Gyroscope of Rural Appraisals . . . . . TRUE D. MORSE, A.F.M., A.R.A. 219
The Appraisal of Cemeteries II . . . . . MARTIN W. LEDERER . . . 225
Appraisal Procedure of Federal Agencies . . . . . PERCY E. WAGNER, M.A.I. . . 240
Writing Reports . . . . . GEORGE L. SCHMUTZ, M.A.I. . 248
The Metes and Bounds System of Land Description . . FRANCIS E. JONES . . . 252
Accounting for Buildings in Farm Property Valuation . W. E. HOBBS 262
Some Problems Confronting Appraisers in Condemnation Cases . . . . . BURTON THOMPSON, M.A.I. . 270
The Appraiser and Public Relations . . . . . MARK CHEESMAN, M.A.I. . . 273
Comment and Discussion.
Thompson—On Real Estate Having More than One Value 278
Carll—On Easement Costs and Damages under California Practice 281
The Appraisal Docket . . . . . WILLIAM WILSON 286
What to Read.
Review of "Cubic Foot Cost Standard Calculator" . CARRIE MAUDE JONES . . . 289
Review of "Valuation Under the Law of Eminent Domain" . . . . . FREDERICK A. BOND, M.A.I. . 290
Review of "McMichael's Appraising Manual" . . LEWIS C. SHOLES, M.A.I. . . 290
New Articles 291
New Members 292
Officers 296
Committees 297
Roster of Members 299

This publication is provided as a medium for the expression of individual opinion concerning appraisal practice and procedure and topics allied thereto. The articles printed herein do not necessarily represent the endorsement of the Institute nor of the majority of the members excepting as such statements may be designated as approved by the Governing Council. The Editors exercise only a general supervision of the material and assume no responsibility for the opinions expressed by the contributors.

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• With The Editors •

REAL ESTATE REPORTS and THE APPRAISAL DOCKET

"YOU may cross-examine!" These words bring a momentary thrill to the "expert" witness. His feeling is that of the player at the "kick-off" in a big football game. As appraisers, we feel a bond of brotherly love and sympathy for all "experts" and—just on general principles, if not from sad experience—an ill-concealed animosity toward all cross-examiners. To be successful, however, appraisers must be able to withstand cross-examination; they must not only know their subject and be sure of their estimates, but they must also have some knowledge of the law as it applies to valuation.

To meet this need the Institute is developing "Real Estate Reports—A Legal Digest." As the initial step in this program the ***Journal,*** with this issue, inaugurates a new section—"The Appraisal Docket." This is edited by William Wilson, a member of the law firm of Kirkland, Fleming, Green, Martin and Ellis, of Chicago. Mr. Wilson announces that this section will be devoted to "Cases, decisions, and other matters involving rulings and precedents affecting real estate and valuation." Mr. Wilson speaks with the authority of many years of experience in the legal phases of real estate and valuation.

We feel that "The Appraisal Docket" will be of great interest and value to property owners and managers as well as to Realtors and real estate appraisers.

* * *

COMING "APPRAISAL FORUM"

The "Joint Committee on Appraisal and Mortgage Analysis," created during the past winter as a cooperative undertaking for directed research in these fields, has just announced an "Appraisal Forum" to take place in the fall or winter months at a date yet undetermined. This is a matter of great importance to all M.A.I.'s: first, because of the worthy purposes for which the Committee was organized; and, secondly, by reason of the large representation of Institute members thereon.

We are much impressed with the potential usefulness of this Committee. It proposes to make a study of appraisal "data" as to source, availability, and weakness; and then—according to an explanatory outline received from the Committee—it proposes to "fill in the gaps." The plan of organization upon a cooperative basis lends confidence at the outset. This is not simply another governmentally sponsored and manned group of experimenters. It starts off with a basic program which has a definite purpose and limitations, and, best of all, the representation on the Committee is drawn from both governmental and private fields.

But—let the Committee tell about it in its own words:

> "It is hardly necessary to point out that there are many gaps in the appraisal data field which increase the difficulties faced by real estate appraisers in performing their functions. Many of these gaps exist for appraisers as a group because the pertinent data have never been compiled, while others exist because data which have been compiled are not known to be in existence.
>
> "In recognition of this deficiency, the Joint Committee on Appraisal and Mortgage Analysis has undertaken steps designed to eventually fill the gaps mentioned.
>
> "This Committee is composed of three representatives with alternates from Federal agencies and an equal representation from private professional associations. It was instigated by the Central Housing Committee and has its headquarters at Washington, D. C.
>
> "Preliminary work is now being undertaken to ascertain what studies have been made and publications issued by the Federal Government and other institutions relating to the appraisal data problem. It is planned to present the results of the Committee's study and investigations at a national appraisal forum at which organizations on a nation-wide scale will be invited. The forum will be held either this fall or winter.
>
> "The Committee includes Frederick M. Babcock, of the Federal Housing Administration, Chairman; E. L. Ostendorf, President of the American Institute of Real Estate Appraisers, First Vice Chairman; and Donald H. McNeal, of the Home Owners' Loan Corporation, Second Vice Chairman. Also as members are included: P. L. Gaddis and John A. Smith, of the

> Farm Credit Administration; A. Joseph Stewart and Coleman Woodbury, of the National Association of Housing Officials; Herman O. Walther and Edmund J. McCormick, of the Society of Residential Appraisers; Ayers J. du Bois, of the Federal Housing Administration; Leonard Downie, of the Home Owners' Loan Corporation; and Philip W. Kniskern.
>
> "In addition to Mr. Ostendorf, Messrs. Babcock, Walther, du Bois, Kniskern, and Downie are all members of the American Institute of Real Estate Appraisers, Mr. Kniskern having served as the first President of the Institute.
>
> "Inquiries may be directed to any of the Committee members or addressed to Henry E. Price, Secretary of the Joint Committee on Appraisal and Mortgage Analysis, North Interior Building, Washington, D. C. Suggestions are especially desired as to the nature of appraisal data not heretofore available but desired by members."

A formidable list! Such an outstanding assembly of talent in the appraisal field should result in real accomplishments. Here is an opportunity for every sincere appraiser to render constructive cooperation to the Committee and thereby serve his profession and reap the benefits which are certain to accrue thereafter.

* * *

IT TAKES MORE THAN A SAW AND A HAMMER

Back in the Stone Age, the fellow with the biggest and sharpest axe was the most successful, provided he had the strength to swing it. His job was no sinecure at that—all he had to do was to bring in the meat to those he harbored in his cave and keep other "axe-swingers" off the premises. Yes, his was a simple job, but, swinging even the best axe, he had to be ***good*** at it—or else!

And so it has been through the ages. Almost two thousand years ago there was a Carpenter. He builded well and permanently—a Master Craftsman. He must have had good tools—but it took more than a saw and a hammer.

And, according to W. H. Prince, M.A.I. of Memphis, Tennessee, it takes more than "tools" to make an appraiser, as he brings out so effectively in the following contribution, which we feel is worthy of a place on the desk of every M.A.I.:

> "A natural talent for painting is the first requisite of a successful artist. An attractive studio, the finest oils, brushes, and canvas will not produce a masterpiece unless these tools are in the hands of an artist who is naturally endowed with the ability to interpret his impressions and who understands proportion, blending of colors, and lighting effects.
>
> "During recent years a great deal has been said on the subject of Appraisal Technique and the use of various interest rate tables and formulae. Experienced and well-informed appraisers find these tools of inestimable value in blending and bringing out certain effects in their final conclusions.
>
> "But the appraiser's modern tools in the hands of a novice can produce disastrous results. An appraisal should reflect the appraiser's interpretation of a thorough analysis of those factors which tend to influence the value of a property, and these interpretations should be based upon experience and ability."

* * *

"DISINTERESTED"—TO WHOM?

Appraising and appraisals took an unprecedented public beating in those "dark days" following 1929. The newspaper files of the period show, in almost every issue, flaring headlines of real estate and business disasters occasioned by over-financing and manipulation, attributed rightly or wrongly to unsound and excessive appraisals. The courts and public authorities denounced in scathing terms the appraisals of the past and declared without equivocation that financial prospectuses and reports in connection therewith must henceforth conform to one fundamental requirement—they would be acceptable only if prepared by "disinterested" parties. Those of us who have "carried on" remember it well enough, but—have the public authorities forgotten? It begins to look as though they have.

The Securities Act of 1933, followed by and amalgamated with the Securities Exchange Act of 1934, resulted from a direct drive by the Federal Government to prevent any recurrence of disastrous public over-financing. Now, where are we today? The Securities and Exchange Commission, empowered to administer these Acts, is doing a good job on the whole. It is creaking along with the complicated machinery which seems to be inevitable in any Federal agency, but, nevertheless, it is making progress and—***the major issue has not been forgotten!***

The Commission is still functioning as a "Traffic Signal System" over the financial thoroughfares and is holding down the speed and keeping the cars in line—trailers and all. It is ***not*** attempting to get out on the road with its own equipment.

To a very large degree, the Reconstruction Finance Corporation, as a lending agency, is carrying on in a similarly limited capacity.

The Reconstruction Finance Corporation, through its employed personnel, does make careful investigations of its proposed loans through a well-coordinated national set-up. It does ***not*** make reports and appraisals as such. By the very nature of things, it should not do so. The public funds are going into the loans, and such a policy would be opposed to the "disinterested" principle.

Such, unfortunately, is not the case in most of the "New Deal" agencies for reconstruction. Not at all! As a matter of fact, the Federal Government is going into the appraisal business on a large scale and in a very "interested" way. The Home Owners' Loan Corporation was the first example. At one time this agency employed thousands of appraisers and still has a large and apparently permanent follow-up staff. The Federal Home Loan Bank Board, the Farm Credit Administration, the Federal Housing Administration, and other similar administrative units, as well as several regularly organized commissions, are following in the footsteps of the H.O.L.C., creating enormous staffs of both "salaried" and "fee" appraisers, whose reports are accepted for the lending of public funds.

It is claimed that by such means, standards are developed that will bring appraisals into line with sound principles and practice not possible to achieve through independent private professional channels. In the abstract, there may be merit in this viewpoint; practically, the limitation of personnel and the difficulties of centralized administration make it unworkable as a permanent matter. But, whatever else may be said, such activities once more violate the "disinterested" essential demanded in the "check-up." The government is lending its own money? True, but—after all—it was the taxpayer's money, and it still belongs to the people.

No less dangerous and puzzling to the thinking citizen is the development of appraisal "staffs" by banks, trust companies, insurance companies, and other private or semi-public lending agencies handling and distributing the funds of depositors. Here, indeed, is a growing menace that may well transcend the government's activities. Under the "fee" appraiser plan, adopted by some governmental units, the door is at least open to return ultimately the appraisal responsibility to private hands. Such is not true in the case of banks and insurance companies. Will it be necessary to expand the principles enunciated in the Securities Act to cover the lending of funds of this character? Possibly, unless these agencies themselves come to a realization of their own vulnerability.

The American Institute of Real Estate Appraisers was brought into being by thoughtful men who wanted to correct the earlier evils—permanently! It is aggressively sympathetic to all efforts toward higher standards of practice. Assistance toward that end is the moving force which directs its deliberations—its ***raison d'etre.*** However, the Institute is equally mindful of that further and the most important condition for future real estate stability—Disinterested Appraisals!

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The JOURNAL *of the*

AMERICAN INSTITUTE OF
REAL ESTATE APPRAISERS

of the National Association of Real Estate Boards

Volume V JULY, 1937 Number 3

Rate of Capitalization

By THURSTON H. ROSS, M.A.I.

THERE are many moot questions in the field of real estate appraisal, but none has aroused more discussion than that of the determination of the rate to be used in the capitalization process. The effectiveness of capitalization rests upon the defensibility of the rate which, perhaps, is the reason why so many appraisers refuse to make even an explanation, let alone a defense, of the rates which they may have assigned in the use of the process.

There are some members of the profession who more or less pride themselves on their position that they are not influenced in the slightest degree by the results achieved from capitalization. Some of these appraisers are sincere in their contention that the results from capitalization are mathematical variables which are affected by too many irrelevant factors to be reliable. Others simply pass over the merits and demerits of the capitalization process with a wave of the hand, ignoring it in many cases because they have never taken the trouble to find out what it means; still others do not use the method because the rate is a "guess" and "one man's guess is as good as another's."

Probably there is no other profession where it is so easy to defend positions of negation, ignorance, or cynicism as in real estate appraising. After all, the value which is fixed by a well-qualified appraiser is no more nor less than his opinion.

FUNDAMENTAL PHASES OF CAPITALIZATION

Perhaps before entering into a discussion of capitalization rates, it is advisable to outline briefly what is considered here to be the fundamental phases of the process of capitalization. It is my opinion that the process of capitalization rests upon one basic idea; namely, that the capital remaining in an investment at any time is assumed to be able to produce a certain income at a predetermined rate.

Let us assume that we have a property which is being capitalized at ten per cent and that this property has a net income, before depreciation, of $1,500 a year. Furthermore, let us assume that the property, after being properly maintained, will be depreciated at the rate of $500 a year. In this case we have a net income of $1,000 per year after paying back the amount of $500 to the investor each year. We propose to capitalize this income at the rate of ten per cent, and in this way we attain a present capital value of $10,000. This does not mean that we shall have $10,000 earning ten per cent five years from now. We establish the rate on the assumption that the *capital remaining in the property* will continue to earn at the rate of ten per cent.

CAPITALIZATION IS NOT A FORECAST

Perhaps the appraiser who uses the capitalization method in determining value may be accused of forecasting. Capitalization does not involve forecasting any more than any other market transaction. No property is bought for present use in the strict sense of the term. A man spends $5.00 for a hat, not for present use, but for future use. You buy a theatre ticket at the box office, not for present enjoyment, but for future enjoyment, even though the future may be only a few hours hence. In the case of the hat, a theatre ticket, or in the purchase of a piece of real estate, the buyer is acquiring future usefulness or enjoyment and is measuring that future utility in terms of today's or this very moment's estimate of the benefit which he will derive from that property or service at some subsequent time. In the capitalization of net income we estimate, in terms of today's market, the future benefits which will accrue through that income. This result is one of the principal indicators to many appraisers of what the property is worth in the market. Upon the basis of this assumption we may show in graphic form (Figure I) the estimate in the case of the $10,000 property which is being depreciated at the rate of $500 a year.

THE RETURN OF INVESTED CAPITAL

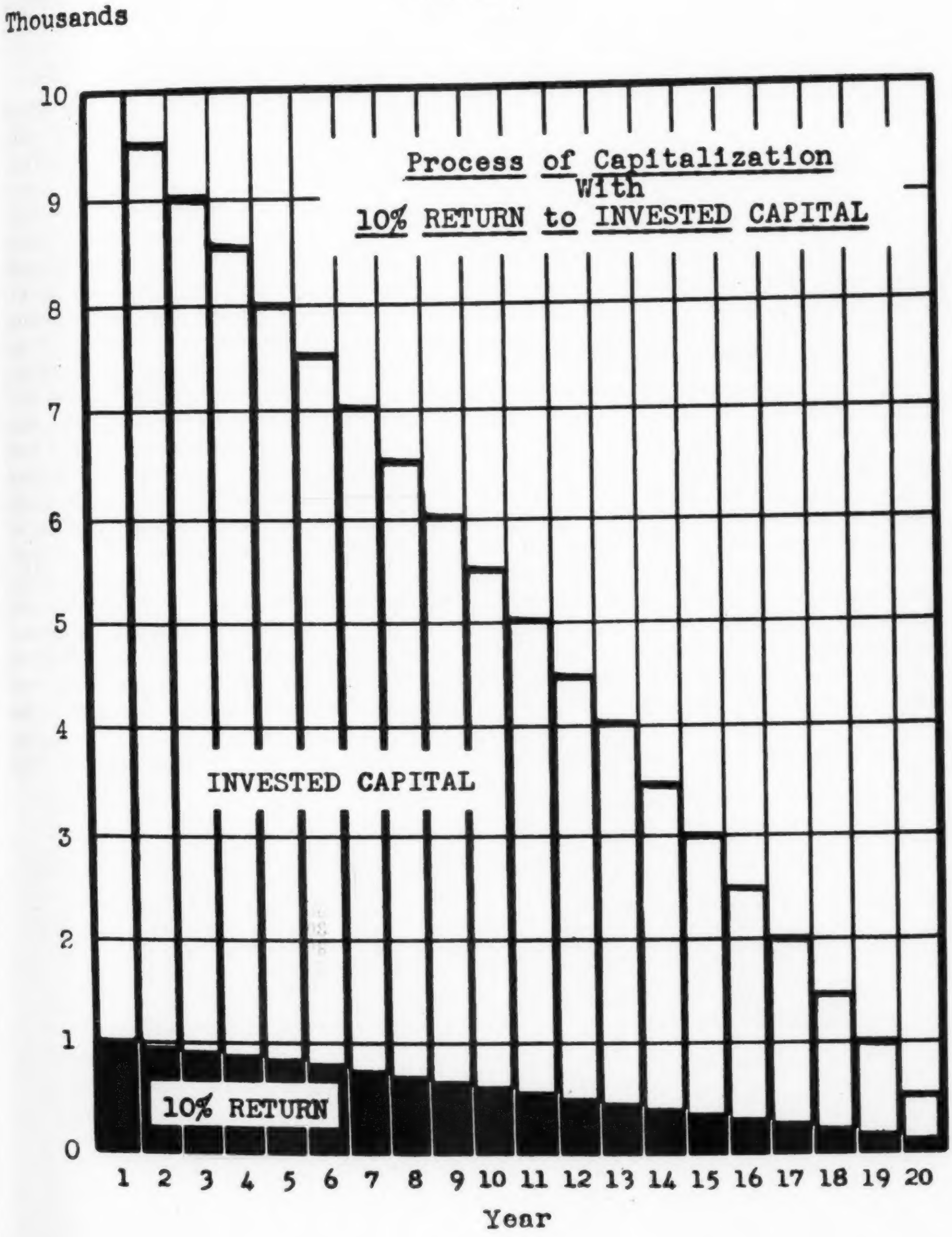
In some cases there may be an actual return of capital of $500 a year in cash. It may be earmarked distinctly as return of capital, but in other cases this return of capital may be camouflaged as "extra dividends" or profit. We do not usually think of profit on an ordinary investment until that investment is sold or otherwise disposed of. All we require in the meantime is a reasonable amount of return on the investment at a fixed rate. Not until the investment is disposed of can a profit or a loss be shown. Real estate is like other investments in this respect, so we should not count our profit until we have disposed of our capital obligation. When we adopt such a procedure under the principle of capitalization, using, for example, a property that requires an investment of $10,000 and from which a ten per cent per annum income is expected, it is reasonable to identify any excess which we get over this ten per cent income as a capital return even though this capital has been returned before it was originally anticipated that it should be paid back. That

TABLE I

PROCESS OF CAPITALIZATION WITH EXCESS RETURNS CONSIDERED INCOME

End of Year	Investment	Annual Net Income	Depreciation	Per Cent On Investment
1	$10,000	$1,200	$500	12.0
2	9,500	1,200	500	12.6
3	9,000	1,183	500	13.1
4	8,500	1,070	500	12.6
5	8,000	990	500	12.4
6	7,500	910	500	12.1
7	7,000	730	500	10.4
8	6,500	660	500	10.1
9	6,000	590	500	9.8
10	5,500	520	500	9.5
11	5,000	400	500	8.0
12	4,500	335	500	7.4
13	4,000	220	500	5.5
14	3,500	160	500	4.6
15	3,000	150	500	5.0
16	2,500	65	500	2.6
17	2,000	15	500	.7
18	1,500	*Loss 45*	500	*Loss 3.0*
19	1,000	*Loss 115*	500	*Loss 11.5*
20	500	*Loss 295*	500	*Loss 59.0*

FIGURE I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Process of Capitalization
With
10% RETURN to INVESTED CAPITAL
INVESTED CAPITAL
10% RETURN
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
Year

is, instead of making capital return only by way of the amount set aside for depreciation, income in excess of ten per cent is also counted as capital being paid back before it was expected that it would be returned.

Let us consider a $10,000 investment from which ten per cent is a good market rate of return, and assume this investment has a net income in excess of the $1,000 per year after depreciation of $500 a year is set aside. The schedule of income might be set up as shown in Table I. That is, all of the annual net income, as shown, is paid out to the stockholders or to the owner. The property apparently is doing very much better during the first seven years than the appraiser who fixed the ten per cent return is assumed to have expected. In the eighth year the property barely gets under the ten per cent wire. For the ninth year and to the end of the property's useful life, assuming it to be twenty years, the property is not living up to expectancy at all. During the last three years it is losing money. During the last half of its economic life, obviously the property is making a very bad showing.

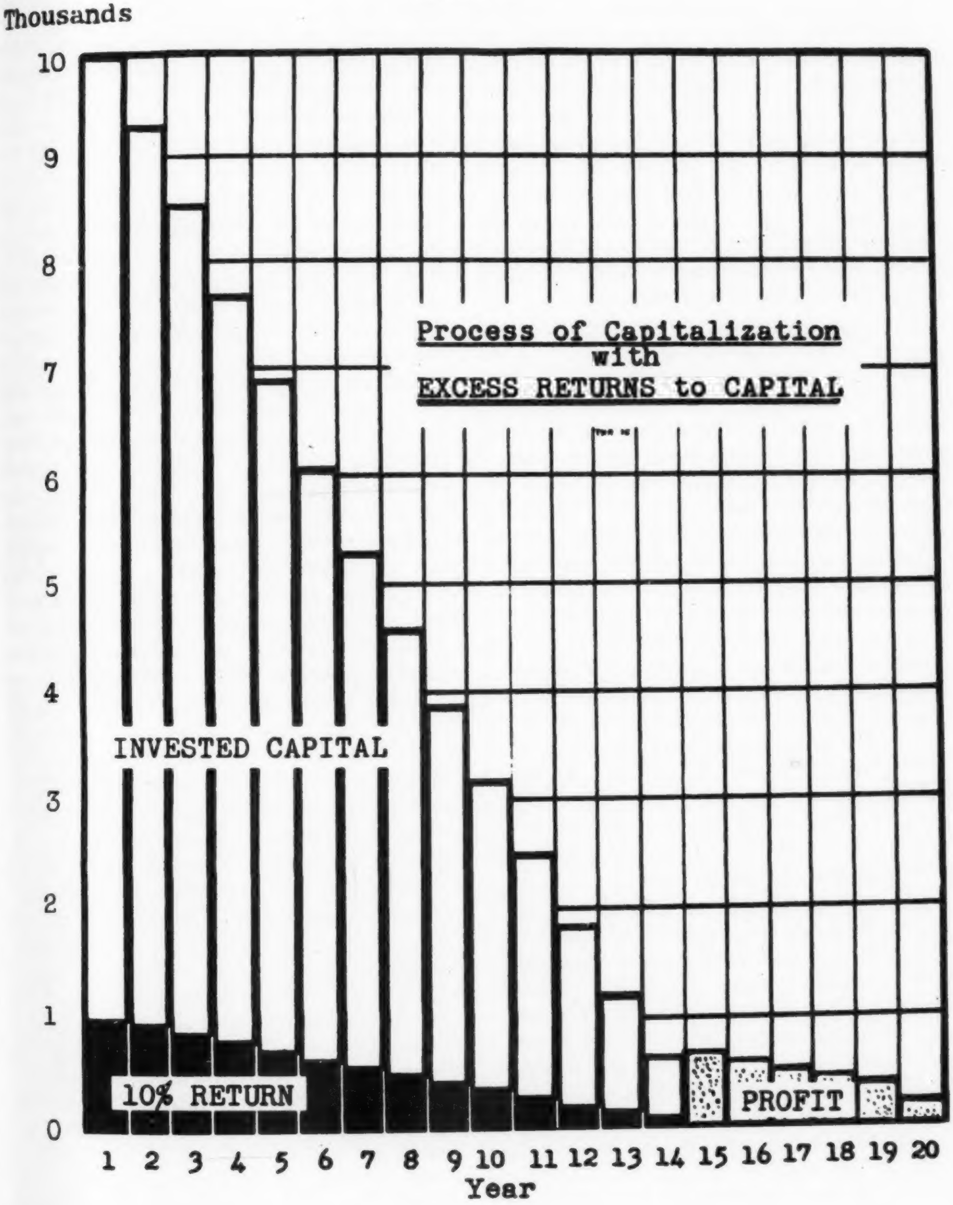
Let us now proceed upon that assumption which the appraiser originally made, namely, that the investment remaining in the property at any time would earn ten per cent; furthermore, that if there is an apparent earning above ten per cent, this excess will be returned as capital and not as profit for the year.

Table II shows the investment in the property for each of the twenty years of the property's life and the annual net income for each of the years. The ten per cent returns on capital actually invested, together with the excess incomes which are credited to capital return, are shown as they occur. By this system we find that the property has returned all of the capital invested in fourteen years, and from the fifteenth year on through the twentieth there is no capital obligation so far as depreciation is concerned. The excess income has been credited to capital; the depreciation fund has been helped along and augmented each year during the first three quarters of the property's economic life so that from the fifteenth year on through the twentieth the net income of the property becomes a profit on invest-

TABLE II
PROCESS OF CAPITALIZATION WITH EXCESS RETURNS TO CAPITAL

End of Year	Net Investment	Actual Net Income	10% Income On Net Investment	Excess Income	Depreciation Return	Total Capital Return
1	10,000	1,200	1,000	200	500	700
2	9,300	1,200	930	270	500	770
3	8,530	1,183	853	330	500	830
4	7,700	1,070	770	300	500	800
5	6,900	990	690	300	500	800
6	6,100	910	610	300	500	800
7	5,300	730	530	200	500	700
8	4,600	660	460	200	500	700
9	3,900	590	390	200	500	700
10	3.200	520	320	200	500	700
11	2.500	400	250	150	500	650
12	1,850	335	185	150	500	650
13	1,200	220	120	100	500	600
14	600	160	60	100	500	600
15	None	650	......	650	......	650
16	None	565	......	565	......	565
17	None	515	......	515	......	515
18	None	455	......	455	......	455
19	None	385	......	385	......	385
20	None	205	......	205	......	205
						$2,775

FIGURE II


Thousands
10
9
8
7
6
5
4
3
2
1
0
Process of Capitalization
with
EXCESS RETURNS to CAPITAL
INVESTED CAPITAL
10% RETURN
PROFIT
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
Year

ment and an increment to the original capital. What the investor has received then, in addition to the ten per cent each year on his actual investment, is a $2,775 capital increment paid in varying amounts over the last six years of the building's life. In other words, there is a capital increment of about twenty per cent on the original investment. It is my opinion that this latter method more correctly interprets the fundamental theory of capitalization than the excess annual income method which was shown in the first instance.

DETERMINING A SINGLE RATE

The appraiser, in fixing the capitalization rate, must assign a single rate to the entire investment. However, this does not mean that every part of that investment is making a return at this particular rate. In fact, we all know that this is not the case. The first mortgage money in the investment is available at a comparatively low rate of interest, while the investor's equity is expected to provide a comparatively high rate of return. In the band of investment theory which I have advocated for some time, we determine the final capitalization rate by breaking up the total investment into several catagories, each having its own rate. That is, in order to find the final rate for the whole investment, various rates are weighted according to their relative importance and are combined into a single rate.

The first mortgage rate is comparatively easy to find. Banks, insurance companies, and private lenders all have a reasonably inflexible rate at any particular time for first mortgage money. That is, one insurance company may offer money at five per cent but would not consider a five per cent loan in excess of fifty per cent of the market value. Another company may be willing to take first mortgages up to sixty per cent of the market value but might require six per cent interest instead of five per cent on the loan. A loan of $5,000 might be available only at six per cent, but if we should get into the $100,000 class, a first mortgage loan might go down to four and one-half per cent, etc.

Second mortgages have considerably more latitude so far as the rates charged are concerned. When competition is strong, second mortgage rates approach, as a rule, to within one per cent of the first mortgage rates, but in the lender's market, as opposed to the borrower's market, this second mortgage money may get up to nine or ten per cent. In many cases it is quite easy to find the second mortgage rate. However, the equity rate is a matter which frequently presents a considerable amount of difficulty.

Let us assume that an investor is in the market for a four-family flat. He wants a new house and finds a builder who is willing to build it for him. The investor is interested in a house which will have a market value of approximately $20,000. He may go to his banker and find that he can put a first mortgage of about $12,000 on the type of house which he has in mind and that he can borrow this money at six per cent. He may have a connection with a private lender who would take a second mortgage of one-third of the first, or about $4,000 on the house at eight per cent. There is about $4,000 yet to be raised on the house. The investor then finds the return on this $4,000 that he himself will have to furnish. Let us assume that he has set up a pro forma statement of his expected income from the house and this statement indicates that after depreciation, vacancy, maintenance, and all other charges, the house will make a net return of $2,000 a year. The investor then takes into consideration the obligations he has to meet out of these $2,000. In the first place, he must pay the bank six per cent on $12,000, or $720 a year. Then he must pay the second mortgage interest amounting to eight per cent on $4,000, which is $320 a year. In other words, he has an obligation on the first and second mortgage of $1,040 which must be met each year. This will leave him $960 return on his investment of $4,000, or twenty-four per cent for the service of his equity capital in the investment.

Now what is the effective capitalization rate? It is determined as follows:

	Ratio to Whole		Rate	Product
First Mortgage	60%	x	6%	3.60%
Second Mortgage	20%	x	8%	1.60%
Equity	20%	x	24%	4.80%
	100%			
Effective Weighted Capitalization Rate..				10.00%

Thus, the equivalent single rate is found to be ten per cent. The process involved in this calculation is not complex. What we have done is to find the percentage of the entire value which could be provided by certain types of loans and assume that the entire investment—that is, 100 per cent of the investment—has a capacity for earning at the average rate of all the various bands of investment.

Let us assume that in the above case fifty per cent of the required capital could be had at an interest rate of five per cent, twenty per cent could be had at a rate of eight per cent, and thirty per cent would have to be the equity capital obtained or financed by the amount which represents the difference between the net income and the payments to the other capital. The set-up would be as follows:

Expected Net Income................		$2,000
50% of $20,000=$10,000 x 5%	$500	
20% of $20,000=$4,000 x 8%	$320	
		$ 820
30% of $20,000= $6,000............		$1,180

The "weighted" single rate remains at ten per cent:

	Ratio to Whole		Rate	Product
First Mortgage...	50%	x	5%	2.50%
Second Mortgage.	20%	x	8%	1.60%
Equity........................	30%	x	19.67%	5.90%
	100%			
Effective Weighted Capitalization Rate				10.00%

Obviously, the first deal is the better one since it returns twenty-four per cent to the equity capital as compared to nineteen and two-thirds per cent on the second. This band of investment method is useful in finding the best deal to make as well as in finding the effective capitalization rate.

An objection might be raised to this method on the contention that the value of the property has to be determined before the different investment bands can be found. This is not so. The first and second mortgage money offers no great difficulty because these ratios are usually pretty well fixed by the lender. Only third and fourth liens or the equity proper present any problem.

We do not find our capitalization rate upon the basis of a specific property in question; we derive it after an examination of particular kinds of money markets. Capitalization rates are not found for a particular piece of real estate but rather for a particular type or band of investment which real estate attracts. Equity money regards prior claims on income, such as first or second mortgage money interest, as "costs." What is left of income after these and other costs are met is the return to the equity money. After the risks that are taken are considered, the rate of return upon this last band of capital may not be so high after all.

One more example may be useful. A man considered buying an apartment house for $135,000. The rental income was $22,722 per year. Taxes were $1,826. Reasonable vacancy was five per cent. After all operating charges were paid and depreciation was taken care of, there was $10,200 per year left according to the prospective buyer's estimate. An insurance loan of $70,000 at five and one-half per cent was offered, while another company offered $80,000 of first mortgage money at six per cent. The seller agreed to carry $35,000 on second mortgage at eight per cent. We find the effective rate as shown in the following table.

	Plan "A"			Plan "B"		
Total Net Income			$10,200			$10,200
First Mortgage	$70,000			$80,000		
Rate	5.5%			6%		
First Mortgage Cost		$3,850			$ 4,800	
Second Mortgage	$35,000			$35,000		
Rate	8%			8%		
Second Mortgage Cost		2,800			2,800	
Total First and Second Costs			$ 6.650			$ 7,600
Total Equity Income			$ 3,550			$ 2,600
Equity Investment			$30,000			$20,000
Rate on Equity Money			11.8%			13.0%

The prospective buyer would not trade under Plan "A" because he would not get enough return on his money; however, Plan "B," in his own opinion, would give him sufficient return to warrant the purchase of the property.

After an appraiser has had some experience in this process, he will find that equity money has a reasonably fixed rate for certain types of property and that a reasonably stable proportion of the required money can be interested at this rate. That is, he does not have to figure every property but may assume, for example, that the last twenty-five per cent of the capital will require an income of twenty per cent, or that the last twenty per cent of the capital will require an income of twenty-five per cent. This final increment of capital is often thought of as receiving its payment through profit on the deal, but the profit, if we insist on calling it that, is made by the use of capital and should be figured as a rate upon investment rather than as an absolute amount.

Just how far anyone might go in challenging this entire process as a "guess" is unimportant. The process has been used in practice very satisfactorily for some time, and, although originally designed only for the larger business properties, it has been found quite as applicable in the case of some smaller income properties. While the process is primarily of statistical nature, it includes all of those elements which ordinarily are taken into consideration by a conscientious appraiser in fixing the capitalization rate. The statistical approach involved is simply a method of organizing information available to the appraiser. However, no matter how we may determine the rate or how we use the process, capitalization is just one indicator of value and is never a final determinant of value. Appraisers should never get over-enthusiastic about their arithmetic because mathematical calculation alone has many deficiencies in figuring value.

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The Gyroscope of Rural Appraisals[1]

By **TRUE D. MORSE, A.F.M., A.R.A.**

The author of this article is already known to Journal readers. He is one of a select group of able enthusiasts of the central farm belt who are taking the "Rue" out of Rural Appraising. He is doing a big job of education in a big way as is well demonstrated in this statistically fortified discussion.

AFTER a long uninterrupted upward trend beginning with the settlement of this new country, land prices reached an abnormally high peak in 1920. They then dropped rapidly for thirteen years to what appears to have been an abnormally low level in 1933. This was the first major decline that land prices have ever experienced in this country. The price trend has again turned upward.

The maximum change involved in the land price movement of the past sixteen years was fifty-seven per cent. This change was sufficient to more than wipe out the fifty per cent equity which all legitimate farm loan organizations tried to maintain. The resulting difficulties are well known and require no elaboration.

With land prices fluctuating so violently and leaving in their wake so much disaster, many land appraisers have been driven to the desperate statements often repeated during the past few years that "During times like these land cannot be appraised," or, "With no market for land, an appraisal is merely a guess." Of course such statements came only from the old "lump sum" appraisers. They were never voiced by those who were well grounded in the theory of valuation and those who were incorporating into their appraisals the best analytical methods.

The appraisers who found it necessary to resort to such statements and who found the situation so confused in 1931 to 1934 that they saw no basis for sound appraisals were undoubtedly groping after elusive land price figures in setting values. On this basis they committed as great a sin in setting low values during the depth of the depression as they did in setting high values during the peak of the land boom.

TREND IN LAND PRICES

Those who have need for land appraisals and all who have even indirect contact with agriculture are logically asking such questions as these:

1. Are land prices again headed on a long upward climb?
2. Can appraisers really appraise during price peaks such as 1920 and depressions such as 1931 to 1934?
3. What are the basic causes of land price fluctuations?

The answers to such questions, although not simple, seem quite clear. The limitations of this article do not permit discussions or even a complete listing of the reasons supporting the answers, but some statements may be helpful.

1. Land prices are again headed upward, but a long uninterrupted climb is not anticipated. We have perhaps seen the last long-time upward trend. In the future we shall have land price cycles; alternate highs and lows. The reasons are many, but dominant considerations are the following:
    - (a) This country, in many ways, shows signs of maturity. We can no longer look forward to long-time upward trends in land values such as when a country is new.
    - (b) The most dominant economic factor affecting land prices is the price which farmers receive for farm products. Therefore, with the more mature condition of the country, it appears safe to say that as long as price levels fluctuate so will land values.

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[1] Reprint from the Journal of the American Society of Farm Managers and Rural Appraisers—April 1, 1937.

2. With the depreciation of soil fertility under such influences as exhaustive crop methods and soil erosion, the productive value of much farm land is steadily decreasing.

   Likewise constructive farm management methods are maintaining, and in some cases actually increasing, the fertility of certain lands.

   Therefore, it is reasonable to expect that the price and value trends on various classes of land will be even more divergent in the future than in the past. It will be equally as important in the future to study land value trends by classes as it will to study the average value trend for all land.

3. With a more mature agriculture, specific types of farming are definitely moving to the areas to which they are logically adapted. Physical, biological, and economic forces are constantly playing upon the industry to bring about more effective land use. When the adaptation of an area becomes known and well established, land prices and values will ultimately have a definite relationship to the dominant type of farming.

   It will, therefore, be even more important in the future to know the trend of land values by use areas than to know the average for the United States as a whole or by states or other governmental subdivisions.

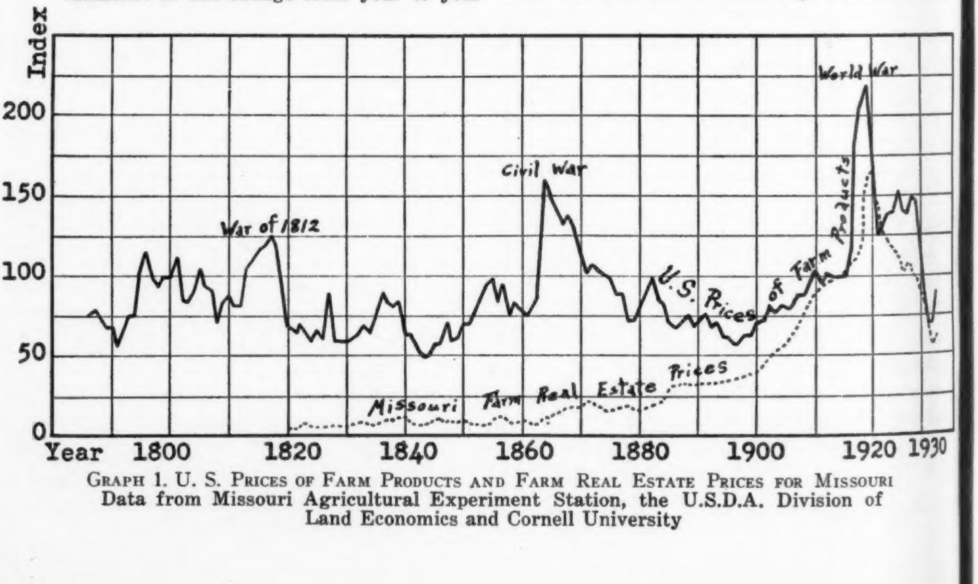
4. Appraisers can appraise effectively during high land price periods such as 1920 and during the depths of depressons such as were experenced in 1933. Principles of land valuation do not change from year to year and are not disturbed by cyclical movements of land prices.

5. The primary cause of changing land prices and values of farm land is the change in commodity prices and, more particularly, the prices paid to farmers for the products which they produce.

LAND PRICES RELATED TO PRICE OF FARM PRODUCTS

Graph 1 shows the relationship of land prices of Missouri to the prices of farm products in the United States. Both trend lines are based on pre-war indexes. Missouri land prices have been used in this graph as they have been very accurately determined as far back as 1820 by extensive research. Each major change in the prices of farm products has been reflected from one to three years later in higher land prices.

This relationship is emphasized by Graph 2 in which Illinois corn and oat prices and land prices are shown. Corn and oat prices were at a high level for the three years 1917 to 1919. During this period, land prices went up rather moderately at first and then very rapidly. Land prices reached a peak one year after grain prices had dropped over 100 per cent. When grain prices reacted in 1922 to 1930 and showed some tendency toward stabil-



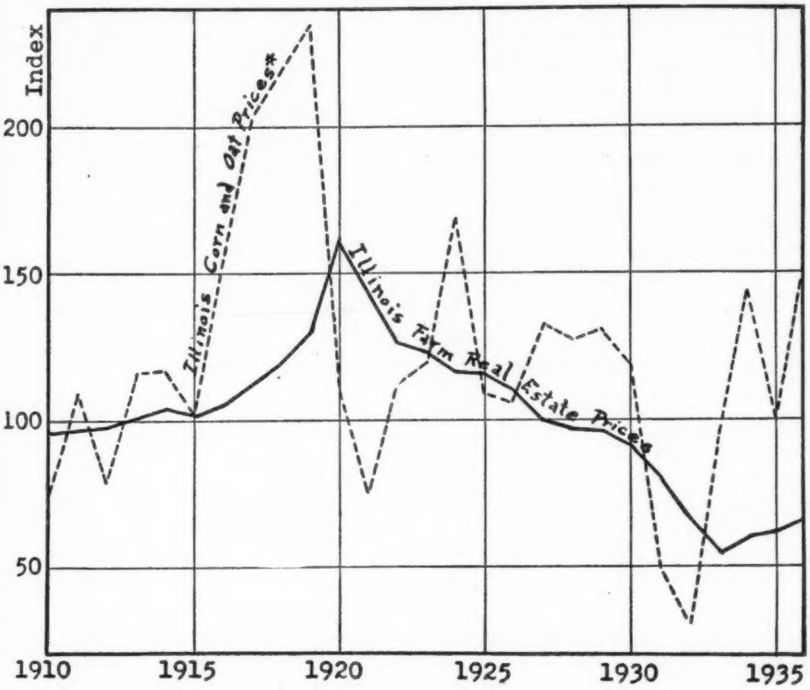
GRAPH 1. U. S. PRICES OF FARM PRODUCTS AND FARM REAL ESTATE PRICES FOR MISSOURI
Data from Missouri Agricultural Experiment Station, the U.S.D.A. Division of Land Economics and Cornell University

ization, there was a distinct slowing up of the downward trend in land prices, as shown both in Graphs 1 and 2. After 1930, with the characteristic lag, land prices followed the prices of farm products to an extreme low and have again started up in response to generally higher prices.

It should not be inferred from the above brief statements that the prices of farm products are the only factors influencing land prices. Many economic elements combine to determine the trend of land prices and to determine the extremes of the changes. It is clear, however, that there is a definite relationship between prices of farm products and land prices.

LAND PRICES DISTINGUISHED FROM LAND VALUES

Note that up to this point land "price" trends have been referred to primarily. Use has also been made of the term "value." In a few cases the two terms have been used together, "price and value trends." There is a very definite distinction between land prices and land values in the appraisal of individual properties. The sale price and appraised value of a property may, at times, be the same, but usually they are different. The price merely reflects the market level. It is the same as value only if the buyers and sellers are fully informed. The appraised value most certainly should be based on the most complete information available and thus may depart a long way from prices that may be temporarily set in the market by speculators or other purchasers lacking information on sound values.



GRAPH 2. INDEXES OF ILLINOIS LAND AND GRAIN PRICES
Land Prices 1912-14=100

*Weighted to give corn three times the influence of oats. 1910-14=100
Data from U.S.D.A.

Likewise, a difference usually exists between price and value trends. Value and price lines seldom coincide for any period of time and usually merely cross each other on the upward and downward sweeps described by the cyclical movements.

It is the purpose of this article to discuss primarily the effect on land values of the prices paid to farmers for farm products, as an appraiser who works from a proper price base can more effectively arrive at correct land values.

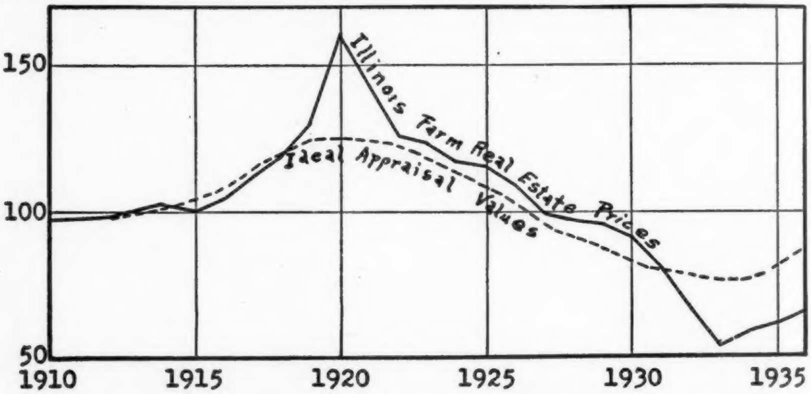
CAPITALIZATION OF INCOME LINKS FARM PRODUCT PRICES WITH FARM VALUE

It is generally accepted that income capitalization is the primary approach in making appraisals. The economic concept of value, property, and property rights centers largely around income. "Thus income is the primary factor in valuation."[1] This does not mean that income is the principal source of value on all properties. In fact, there are many cases where it is not. Generally speaking, however, the rights to future income from a property is a major value factor and must be carefully analyzed in establishing the value of a farm.

In the calculation of income, the price of various farm products must of necessity be used. The problem is: what prices or average prices lead to the most accurate determination of value? The Federal Land Bank has, for a number of years, used the five-year averages for the years 1910 to 1914. Some adjustments of these are now being made. Others have adopted fixed and rather arbitrarily selected prices. The prices most generally used are five to ten-year averages for the period immediately preceding the date of the appraisal.

Although none of these appear entirely satisfactory, the ten-year average appears to have the most merit. It gives a trend line with some of the characteristics of the one desired, but even it falls short of being perfect.

The accompanying Graph 3 shows the trend of Illinois farm real estate prices since 1912. This is based on index figures, with 1910 to 1912 average land prices equal to 100. Superimposed on this graph is a trend line which, for want of a better name, has been called the "ideal appraisal value" line. If appraisals could be made on the level that would be preferable, they would approximate the level of the ideal line in the various years. This would not be a straight line but one regularly and



GRAPH 3. INDEX OF ILLINOIS FARM LAND PRICES 1912-14=100 AND SUGGESTED IDEAL APPRAISAL VALUES
Real Estate Price Data From U.S.D.A.

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[1] Babcock, F. M., "The Valuation of Real Estate."

conservatively yielding to the swing of prices of farm products and farm land, more or less feeling the pulse of general land value trends, and tending to anticipate rather than follow land price changes. The latter part of this statement is most significant, tending to "anticipate rather than follow land price changes." As this line indicates, appraised values should never approach the extreme peaks of land price trends — the high of 1920 and the low of 1933.

A STABILIZING APPRAISAL FACTOR NEEDED

If the influence of extreme land prices is to be avoided, some major stabilizing appraisal factors must be employed. It appears that in the income capitalization approach, using weighted or adjusted average prices of farm products over a substantial number of years, can be found a balance wheel, *a gyroscope for land appraisals*. Primary reliance on comparative methods will cause most appraisers to yield to the strong magnetic pull of extreme highs and lows. Appraisals are, after all, opinions; and the human factor back of appraisals will continue to be subject to the same influences that actuate land buyers and sellers in fixing land prices. In the income capitalization portion of appraisals lies the hope for a solid, factual resistance element to keep the human appraiser away from the error of reaching opinions of values that are not in accord with the long-time trends of the true value of rural property.

As previously indicated, farm loan companies and the Farm Credit Administration are using various methods of setting the prices of farm products which they use in the appraisal process. This tends to indicate that the one best method has not been found, and, in this, the writer heartily agrees. There is a general feeling that a ten-year average price is perhaps the best, but this is not backed by convincing proof or scientific analysis.

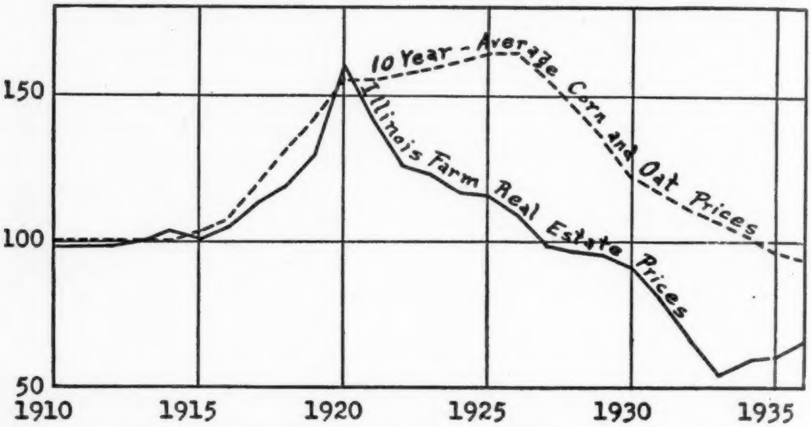
There is an answer to the question, but the appraisers of this country are in serious need of the assistance of the agricultural economists of both state and federal institutions in determining what is the correct answer. These institutions could make no greater contribution to the agricultural interests of this country, as well as to life insurance companies and others interested in farm loans, than to indulge vigorously in scientific research that would bring forward a practical working formula that would properly answer the question: what is the best price base to use in making rural appraisals?

There has been projected on Graph 4 a ten-year running average for corn and oats to show the relationship with land prices during the twenty-six-year period of 1910 to 1935 inclusive. A brief comparison with the trend line of Illinois farm land prices shows the weaknesses of this kind of an average. Some of those that stand out most clearly are:

1. There is a serious delay in the response of the running average to the changes in the actual trend. In the graph, the average grain price reaches a peak six years after the land price peak in 1920.
2. The fluctuations of the ten-year average are very extreme. The high is above the peak of land prices.

Appraisers can properly forecast the future only by a study of the past. Crop prices and rental rates must, therefore, be set in accord with the prices and rates of the past. This is not a simple process, and this article has not offered the solution. It has been merely an attempt to outline the problem more clearly and emphasize the need for a scientific solution. The answer probably lies in the proper modifications of extreme prices, especially when such are the result of war or other similar disturbances of normal economic cycles.

If it is true that we have passed the era of the long upward trend in farm real estate prices and that land price movements in the future will be cyclical; and if it is true that changes in the prices of farm products are the most important factor affecting land value trends; then it is very important, in fact a necessity, that appraisers know how to use properly this dominant factor in setting values.



GRAPH 4. INDEX OF ILLINOIS FARM LAND PRICES 1912-14=100 AND 10-YEAR AVERAGE OF CORN, OAT PRICES WEIGHTED TO GIVE CORN THREE TIMES THE INFLUENCE OF OATS 1910-14=100

Data from U.S.D.A.

It appears that if and when a method has been worked out to establish dependable average prices of farm products, they will serve as a *gyroscope* by means of which appraisers can keep on an even keel while riding through the waves of fluctuating land prices. Without some dependable regulator, the trend of sound land values cannot be accurately followed.

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The Appraisal of Cemeteries II

By MARTIN W. LEDERER

In his first article in the April, 1937, issue of the Journal, Mr. Lederer discussed the basic problem and the general approach to the valuation of cemeteries for financial or any other purpose involving a search for current value. Here he treats on the appraisal for a special purpose—Federal Income Tax, a most important problem at the present moment requiring a "retrospective" valuation.—Ed.

A PREVIOUS article outlined the basic principles pertinent to the valuation of cemeteries and was designed to familiarize the appraiser, who has had little practical experience with this type of property, with the theories, methods, and approach to the problem in a broad way.

This article is planned to show the mechanical procedure necessary for the compilation of a formal report for a special purpose — Federal Income Tax. The subject selected is the valuation of the remaining lands in an operating cemetery enterprise, appraised as of March 1, 1913, for the purpose of establishing a base for the depletion of these assets as they are sold in future years. An actual appraisal is used for discussion, although the names and locations are fictitious. This is a "retrospective" appraisal, that is, the investigation was made and the report prepared as of a current date with values desired as of a prior date.

The Federal Income Tax laws provide for depletion or depreciation of assets after March 1, 1913, upon the basis of *cost or market value* at the option of the taxpayer. This alternative was given the taxpayer by the Congress of the United States to allow for such capital increment as had taken place up to 1913, as compared with original cost, and was assumed to provide an equitable base for recovery of capital in depreciating assets for all taxpayers. The premise of depletion of capital in a cemetery enterprise was covered in the preceding article.

The following digest of the appraisal report is presented in the order that the investigation followed, the narrative and economic considerations pertaining to competitive cemeteries, death rates, etc., having been eliminated for the sake of brevity. A plat plan of the cemetery is included, which shows the sections and lots designated by key letters for the purpose of discussion.

HISTORY OF THE ENTERPRISE

The Washington Highlands Cemetery Association was incorporated under the laws of the state of New York in 1892 to develop and to sell a tract of land located on the outskirts of the city of Hermitage, county of Jackson, and state of New York, for general burial purposes. This tract, which was irregular and rolling in topography, contained an area of 106.94 acres, having a frontage of 1,400 feet on the easterly side of Maple Avenue and sloping downward to the river which formed the easterly boundary of the property.

The developers of the project very wisely decided upon certain definite restrictions for the perpetuation of the natural beauties of the site and the establishment of the good will of the public. Accordingly, the following stipulations were incorporated in the lot deeds to provide the purchasers with a clear conception of the character of the enterprise over future years:

Each lot in the cemetery was restricted to one monument and all other headstone markers were to be set at ground level. The erection of these stones and the construction of the bases were to be done by the Cemetery Association itself, thus assuring uniform placing and permanency. The mowing and planting of these resulting wide level areas were also to be provided by the Association at a minimum labor cost.

The planting of flowers, ivy, myrtle, and other floral adornments on the lots and graves was likewise vested in the Cemetery Association, for which a definite charge was to be made annually, dependent upon the nature and extent of the creation desired. This plan provided uniformity of design and guaranteed maintenance of the planting throughout seven to eight months of the year, thereby eliminating indiscriminate digging and poorly kept floral beds infested with weeds, so evident in the general old type of cemetery not enforcing similar restrictions.

This planting required a richer top soil than the ground provided in its native state, and the graves were composted with a rich black dirt to provide the necessary fertile base. An extra charge was made for this service.

The annual care of each lot or grave, confined to watering and the care of the grass, was also provided for at a fixed charge.

The maintenance of the cemetery proper was guaranteed by a perpetual care fund to be created from the receipts of the lot sales. While no definite amount was guaranteed, a reasonable total was determined for this purpose.

All graves were required to be level with the adjoining ground, thus definitely excluding all mounding and providing a park-like appearance by virtue of the continuity of lawns broken only by the attractive plantings. This plan was adopted by both Forest Park and Calvary Cemeteries (the two competitive developments) in recognition of the additional beauty created and the simplification of maintenance of a level area as compared to a contour broken by unrelated moundings.

Floral pieces and funeral designs were to be removed by the employees of the Association as soon as they had become unsightly.

The erection of a mausoleum required the ownership of a lot designated as a "mausoleum lot" by the Cemetery Association, which was to be of ample size to eliminate the appearance of crowding.

These particular restrictions in force at Washington Highlands Cemetery were chosen as an illustration because of their individualism in Jackson County cemeteries. Their worth to purchasers of lots could best be measured by comparison with the appearance and desirability of other cemeteries, and—being peculiar to Washington Highlands Cemetery only—they provided a very definite asset to prospective purchasers and owners of space which, in future years, created a definite annual increase in the total square feet of sales and the unit price obtained.

The structural improvements erected in the first few years of the development and existing as of March 1, 1913, comprised:

A large, red brick, two-story and basement office and chapel building situated close to the entrance.

Elaborate entrance gates of red brick and ornamental wrought iron.

A continuous iron property enclosure fence with red brick standards twenty feet on centers.

A large frame implement and horse barn.

A concrete and brick receiving tomb for temporary storage.

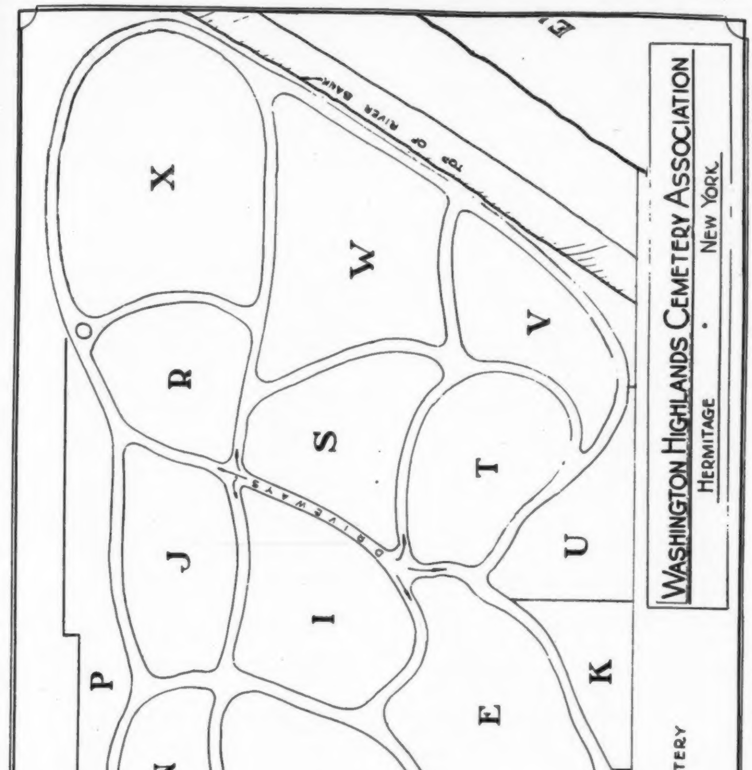
A brick house occupied by the caretaker.

A brick and glazed hot house.

These improvements added materially to the character of the enterprise and were necessary to the operation as a whole; however, they were not independently appraised as they represented assets which accrued to the purchasers of lots and eventually were to be operated and maintained by the trustees under a Perpetual Care Fund and from the income to be derived from their use in conjunction with burials, services, flower sales, etc.

SALABLE AREA

The development, conforming to general cemetery plans, was laid out into sections, and the sections laid out into blocks and lots, or single graves. (The complete Cemetery Layout is shown on the next page—Figure I. A typical Lot Layout is shown in Figure II on the following page.) In 1913, only a portion of the sections had been actually platted for lot sales. The easterly sections and bordering roads had not been platted, although the general idea as to the size of the sections and the location of the roads had been given some


WASHINGTON HIGHLANDS CEMETERY ASSOCIATION
HERMITAGE · NEW YORK
CALVARY CEMETERY (ADJOINING)
TOP OF RIVER BANK
DRIVEWAYS
DRIVEWAYS
MAPLE VIEW AVENUE
STREET CAR LINES
BARN
FOREMAN'S RESIDENCE
RECEIVING VAULT
OFFICE
N
A
B
C
D
E
F
G
H
I
J
K
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M
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FIGURE I

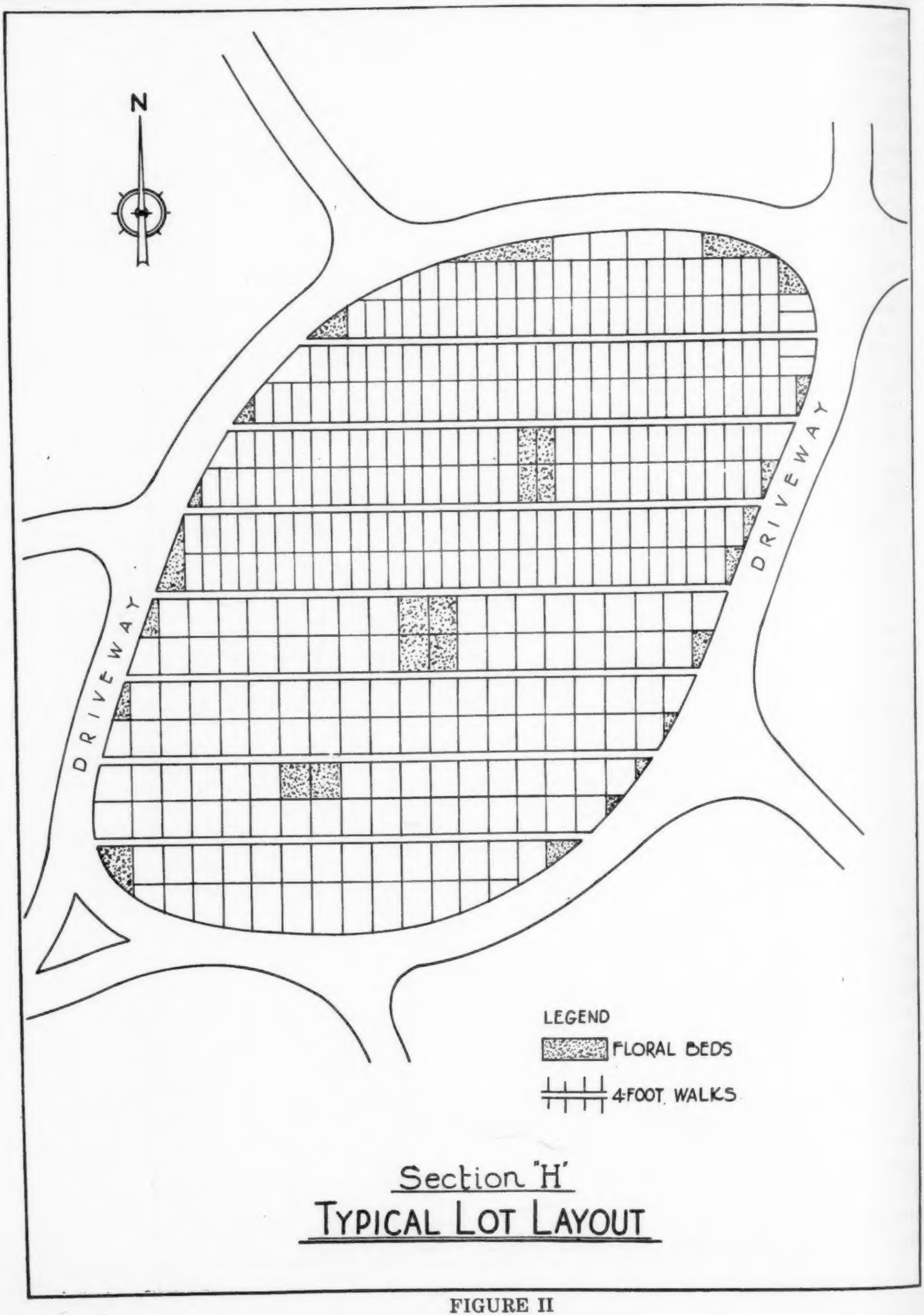
N
DRIVEWAY
DRIVEWAY
LEGEND
▨ FLORAL BEDS
4-FOOT WALKS
Section 'H'
TYPICAL LOT LAYOUT

FIGURE II

thought. For the purpose of appraisal analysis, the engineer in charge of the layout and general planning work prepared a plat indicating the relative location of the roads and sections, computing the salable and unsalable area of the entire property upon the following basis:

> The river bed, marsh, and bank containing 11.44 acres, together with the actual area of the roads, both completed and proposed, were deducted from the total area as unsalable land.
>
> Each section contained a border, numerous walks, and areas for planting, all of which were unsalable and were also deducted from the total area.
>
> The total area of the land within the outside borders of the sections proper was shown to be 85.4 acres as compared to the total area of the entire plot of 106.94 acres.
>
> A portion of the center of Section "G" had been reserved as a parkway; this section was to be landscaped and to contain some of the most attractive trees in the development. While this might be sold as burial space at some later date, the plans of the Association necessitated the inclusion of the area as unsalable land. A large portion of Section "D," to be used as a lagoon and bordered with many trees and plantings, was also deducted as unsalable area.
>
> The computations by the engineer, Walter T. John, showed the total salable area of the property to be 3,081,673 square feet.
>
> For the purpose of conservatism, a further deduction of five per cent was made for additional contingencies. This resulted in a total salable area of 2,927,600 square feet, as compared with a grand total of the 106.94 acres or 4,658,306 square feet in the entire property.

The sale of single graves in a cemetery, while meeting a definite demand for space and providing an annual income, results in the promiscuous placing of memorial stones, planting of individual flower beds, and indiscriminate care of the plot. This detracts materially from the appearance of the average cemetery.

Sections "K" and "P" were platted as single graves and had been partially sold in 1913. The plat plan of this property showed the excellent manner of providing space along the borders of the development where the natural beauty and verdant growth was not affected. The sale of graves in these sections included the area to the center of the walk between the graves. This area, together with a ten-foot border adjacent to the property line and a three-foot border adjacent to the road, was deducted as unsalable or waste land.

The salable area of these sections was as follows:

Section "K"	73,600 square feet
Section "P"	141,800 square feet
Total	215,400 square feet

The total salable area of the lots and single graves was therefore:

Area of lots	2,712,200 square feet
Area of graves	215,400 square feet
Total	2,927,600 square feet

This represented approximately sixty-three per cent of the area of the property in its entirety.

SALES TO 1916

The following tabulation of the annual sale of lots in square feet and in dollars showed the trend of increase, both in annual square foot sales and unit square foot prices, from 1892 to 1916.

Year	Annual Sq. Ft. Sales	Price	Average Price per Sq. Ft.
1892	600	$ 327.96	$ .5466
1893	9,863	5,624.87	.5703
1894	7,298	2,210.56	.3029
1895	9,788	3,333.79	.3406
1896	7,595	3,386.61	.4459
1897	14,867	6,620.28	.4453
1898	14,308	5,233.87	.3658
1899	15,106	5,734.24	.3796
1900	18,396	7,518.45	.4087
1901	19,480	7,842.65	.4026
1902	22,861	11,800.85	.5162
1903	23,124	13,481.29	.5830
1904	26,817	15,527.04	.5790
1905	30,910	16,722.31	.5410
1906	28,927	15,580.08	.5386
1907	30,418	18,481.98	.6076
1908	32,612	20,490.12	.6283
1909	34,817	20,952.87	.6018
1910	37,396	24,916.95	.6663
1911	39,467	28,317.57	.7175
1912	42,825	29,707.70	.6937
1913	46,386	35,132.76	.7574
1914	47,920	37,229.05	.7769
1915	48,813	37,268.73	.7635
1916	49,242	41,909.87	.8511
Total	659,836		

The preceding figures were carried to the year 1916 upon the usually accepted assumption that unit price adjustments for the future could have been forecast for at least a few years beyond the basic date of valuation.

The annual grave sales in square feet and average unit prices were as shown in the following tabulations. Adjustments were made to net land sales prior to 1913, during which period interment fees were a part of the sales price, and the average cost of such interments was, therefore, deducted from the recorded sales.

Year	Annual Sq. Ft. Sales	Price	Average Price per Sq. Ft.
1893	833	$ 131.10	$ .159
1894	1,056	227.70	.216
1895	946	185.85	.196
1896	1,194	100.20	.084
1897	1,542	276.90	.180
1898	1,944	322.53	.166
1899	1,282	218.27	.170
1900	1,723	379.06	.220
1901	1,779	311.32	.175
1902	1,842	410.77	.223
1903	1,830	345.87	.189
1904	1,916	419.60	.219
1905	2,032	388.11	.191
1906	2,418	515.03	.213
1907	2,733	579.40	.212
1908	3,416	813.00	.238
1909	3,689	1,191.55	.323
1910	3,830	1,171.98	.306
1911	4,492	1,060.11	.236
1912	4,818	1,498.40	.311
1913	5,117	1,678.38	.328
1914	5,382	1,523.11	.283
1915	5,612	1,649.93	.294
1916	5,818	1,710.49	.294
Total	67,244		

The foregoing computations indicated a total salable area of lots and salable area of graves as of March 1, 1913, as follows:

Total salable area of lots	2,712,200 sq. ft.
Area of lots sold	525,800 sq. ft.
Remaining salable area	2,186,400 sq. ft.
Salable area of graves	215,400 sq. ft.
Area of graves sold	48,200 sq. ft.
Remaining salable area of graves	167,200 sq. ft.

During the first two years of the life of the cemetery, the directors and officers of the company purchased some of the finer lots, both as to location and area, which resulted in a higher price per square foot than that which prevailed in the following year. The gradual rise in price, therefore, from 1894 to 1916 was believed to be more indicative of the actual increase.

As shown by these computations, the average selling price of lots in 1913 was seventy-five cents per square foot, showing an average annual increase of two and three-tenths cents per square foot, or about seven and one-half per cent in the selling price over and above the 1894 price. The total gross realization to be derived from the salable area of the lots remaining as of March 1, 1913, if sold at seventy-five cents per square foot, therefore, would be $1,639,800 (2,186,400 x .75), without consideration to further enhancement in price.

The sale of graves during this period, 1893 to 1916, showed a very definite annual increase in unit prices and in annual square foot sales. This was dependent partially upon periods of depression (at which time, of course, the sale of lots suffers in direct proportion) and partially upon the mortality rate of infants in relation to the average mortality rate of the city or county as a whole. The period from 1910 to 1916 indicated an average selling price of approximately thirty cents per square foot and a total realization from grave sales, based upon the salable area remaining as of March 1, 1913, of $50,160 (167,200 x .30) if sold without consideration to any enhancement.

COMPETITIVE CEMETERIES

An investigation was made of the unit prices obtained at Forest Park and Calvary Cemeteries. Forest Park Cemetery, a city-owned enterprise, disclosed a longer period of development and from 1910 to 1914 received prices which were approximately thirty to sixty per cent higher than those received at Washington Highland Cemetery. The unit prices obtained at Forest Park during this period ranged from sixty-five cents to $3.00 per square foot and averaged well over $1.00 per square foot. The prices established at Calvary were found to be very much the same as those secured at Forest Park.

About 1913 the Washington Highlands Cemetery Association decided to bring its current holding prices up to and in line with the unit prices secured in Forest Park. With this definite plan in mind, an annual increase in price was effected. Prices of $4.00 per square foot to $5.00 per square foot were established on Sections "A," "B," and "C," with the realization that these prices would not be actually secured for many years. In other sections, the expectancy of which was to be realized within the next few years, the unit prices averaged $1.00 per square foot and were thought to be comparable and proper. Future prices, after perhaps five years, were not definitely forecast except for Sections "A," "B," and "C" as mentioned. However, with consideration to a future program which was to provide increasing beautification, a sales plan which included perpetual care of graves and restrictions as to memorial stones, it was confidently expected that a gradual increase in the selling price of lots and graves would automatically be realized and that this would be commensurate with the relative desirability of this development as compared to other Jackson County cemeteries.

The sale of single graves, as previously detailed, also showed an increase in price up to 1916. The single grave Sections "K" and "P" in Washington Highlands were more attractive and desirable than similar sections in other competitive cemeteries. This greater desirability, together with the limited available space, justified the belief that, as of March 1, 1913, a definite increase in annual area sales as well as higher unit prices would have been reasonably anticipated.

DEVELOPMENT TO MARCH 1, 1913

The cemetery, as of March 1, 1913, was only partially developed. Sections "A" and "B" were complete as to physical layout but had not been platted into lots; consequently, the stone corner markers of lots had not been placed.

Section "C" was in practically the same condition except that some filling for approximately one-half the area was necessary before sales could be made. Section "D" was fully improved. The lagoon had been constructed, and considerably more planting had been done here than was anticipated in any other section.

Sections "D," "F," "G," and "H" were complete and had been partially sold. These sections required little more in the nature of topographical work than the dressing and fertilizing of the top soil.

Sections "I" and "J" were laid out but were as yet entirely unimproved.

Section "K" was about thirty per cent complete and sold out as single graves. The remainder of this section was in the native state but required only a fertilization in the top soil, platting, and stone markers for lot corners.

Section "L" was more than one-half complete as to topographical development but required drains for disposal of its natural spring water.

Section "O" was entirely complete, having required very little topographical development.

About forty per cent of the area of Section "P" was complete as to topographical development. The major items of this cost, however, were expended in the westerly part of this section before 1913. The balance was fairly level overall.

Sections "M," "N," "R," "S," "T," "U," "V," "W," and "X" were in their original native state.

BASIS OF AND APPROACH TO VALUATION

The problem involved, as previously stated, was the valuation of the cemetery as of March 1, 1913. The basis of valuation was the determination of the fair market value which obviously would have been measured as the then present worth of the future realization from the sale of lots and other net returns over the life of the enterprise. In principle, the problem was no different than that of determining the current value of the property, the only distinction being the specific application of the use of information which would have been available as of March 1, 1913. In other words, viewed upon a "retrospective" basis, the appraiser was automatically limited to the use of data available at the valuation date; the future estimates could not be adopted from the known operating results of subsequent years.

The approach, therefore, involved primarily the setting up of the estimated future gross income from all sources and the estimated operating expense and net profits after proper charges were made. This, in turn, properly capitalized, would represent the fair market value of the holding as of the valuation date.

Space does not permit the introduction of all of the details covering income and operating expense items for the years 1892 to 1913. Such a schedule, however, was prepared from the records available and disclosed that the accounting system in use prior to 1913 provided for the inclusion of all expense and capital investment under major classifications but without distinction as to the character of such expense.

Furthermore, the costs had been accrued on the books as incurred during each of the years under varying labor and material prices. Before consideration could be accorded to these historical figures in adopting them for analysis, it was necessary to segregate the capital investment from the actual operating expense and to reconstruct the remaining expense to the price levels of March 1, 1913.

DEVELOPMENT COSTS

In adjusting the actual costs, it was found that about 1896 (the first years of development) labor was paid $35 per month. In 1913 labor was paid $50 per month, or an increase of forty-three per cent. Each acre to be developed after 1913 would have been expected to necessitate an expenditure of forty-three per cent more for labor than the actual labor cost in 1896, all other things being equal.

The disbursements for items other than labor, as tabulated below, were believed to be fairly representative of the normal 1913 costs and were, therefore, included at actual cost. These expenditures from 1892 to March 1, 1913, with adjustments to the salary, labor, and new building accounts, were as follows:

Salaries		$28,371.37
Pay Roll (Labor)		86,743.38
Barn Property		7,377.63
Tools		4,094.35
Building Materials	*	3,461.87
General Repairs	*	1,769.38
Seeds and Shrubs		3,765.29
Fertilizers		2,976.87
Printing, Office Supplies, and Advertising	*	9,263.41
Telephone, Taxes, and Insurance	*	2,706.16
Fuel, Light, and Water	*	4,497.14
Furniture and Fixtures	*	832.86
New Buildings	*	23,066.60
Building Repairs	*	2,640.94
Incidentals	*	4,902.52
Commissions	*	5,208.36

*Operating and Maintenance Costs

The accounts designated by asterisks were definitely expenditures that should have been charged against operations and maintenance. They were not believed to be assignable to development costs.

The other accounts were partially development and partially maintenance costs and were totaled as follows:

Salaries	$28,371.37
Pay Roll (Labor)	86,743.38
Barn Property	7,377.63
Tools	4,094.35
Seeds and Shrubs	3,765.29
Fertilizers	2,976.87
Total	$133,328.89

The New Building Account was not included in the above tabulation as there were no future expenditures contemplated.

A study was then made of the cost of annual maintenance based upon 1913 prices and of the cost interments, which were not allocated on the company's books but which were included in the above totals.

A study was made of the actual time, labor, and materials required for the relation of each item to the developed and undeveloped portion of the enterprise as of the year of expenditure, and standards were determined in the following manner:

One man was required permanently to care for twelve acres of land; his duties consisted of the mowing of grass, shearing around the base of monuments, and planting grass seed. The annual cost per acre, based upon 1913 labor rates, was $50 — $50 × 12 months ÷ 12 acres.

One man was required to care for 4.8 miles of road; his duties included the filling of holes, clearing debris from the roads and borders, the removal of snow, and generally keeping the roads in an improved condition — $50 × 12 months ÷ 4.8 miles = $125 per mile.

One man was required to clean fifteen acres of land; his duties consisted of the collection of debris, the removal of withered flowers from the graves, the raking of leaves, and the disposal of accumulated rubbish — $50 × 12 ÷ 15 acres = $40 per acre.

One man was required to care for twenty acres of trees as planted; his duties included the pruning of branches, the watering of trunks, and the care of new saplings — $50 × 12 months ÷ 20 acres = $30 per acre.

One man was required permanently to care for all the water and drain repairs in the entire area — $50 × 12 months ÷ 100 acres = $6.00 per acre.

Two men were employed permanently to make general repairs to the buildings and equipment — $50 × 12 months × 2 = $1,200 per year.

One foreman and an assistant were to supervise the work of the entire area when completed — ($80 × 12 months ÷ 100 acres) + ($60 × 12 months ÷ 100 acres) = $16.80 per acre.

The cost of seeds and shrubs for the entire planted area was estimated at $6.00 per acre.

The labor and material costs allocated to development and maintenance work up to March 1, 1913, were segregated upon the basis of the area of the completed portions and a percentage of the area of the partially completed portions.

The actual maintenance costs until 1894 were practically nothing. Development work after 1894 was done in a systematic manner, as is evidenced by the equality of the pay rolls for the following years. The Association developed all of the sections under its own supervision and with its own employees, thus allowing for maintenance, development, and contracting care to be done at minimum cost.

The following tabulation showed the years in which the sections were completed and the annual acreage cared for under the required maintenance charges:

Year	Section	Total Acreage Maintenance by Years
1894	F.G.	12.4
1895	F.G.K.	12.8
1896	F.G.K.	12.8
1897	F.G.K.	12.8
1898	F.G.K.	12.8
1899	F.G.K.	12.8
1900	F.G.K.	12.8
1901	A.B.C.F.G.K.	18.8
1902	A.B.C.F.G.H.K.	22.9
1903	A.B.C.F.G.H.K.	22.9
1904	A.B.C.F.G.H.K.	22.9
1905	A.B.C.F.G.H.K.	22.9
1906	A.B.C.F.G.H.K.O.P.	24.5
1907	A.B.C.F.G.H.K.O.P.	24.5
1908	A.B.C.E.F.G.H.K.O.P.	29.3
1909	A.B.C.E.F.G.H.K.O.P.	29.3
1910	A.B.C.D.E.F.G.H.K.O.P.	31.7
1911	A.B.C.D.E.F.G.H.K.O.P.	31.7
1912	A.B.C.D.E.F.G.H.K.O.P.	31.7
1913	(first three months only)	6.1
Total		408.4

Section "L" was only partially complete at this time and was omitted from the computation of maintained area.

From a record of maintenance, as previously discussed, the following items were computed and applied to the acreage annually maintained during this period:

Section care—
$50 per acre × 408.4 acres = $20,420
Roads—
$125 per mile × 40 miles = 5,000

Cleaning up—
$40 per acre × 408.4 acres = 16,336
Supervision—
$16.80 per acre × 408.4 acres = 6,861

Total Maintenance Cost
1892 to 1913 .... $48,617

The maintenance charges not included in this computation were so closely related to the actual development costs that their allocation for the purpose of accuracy and conservatism were included as development cost.

The total expenditures from 1892 until March 1, 1913, for development and maintenance work were $133,329, adjusted to 1913 costs upon the basis of labor price trends as previously stated. Deduction of the maintenance cost, estimated at $48,617, from this total left $84,712 as the total cost of development for this period. A further deduction was made for the cost of interments. The total number of interments up to March 1, 1913, was 3,335, for which a charge of $14,676 was made. Of this total, however, only four-sevenths (or $8,386) was actually representative of cost. Eight thousand three hundred and eighty-six dollars were deducted from $84,712, which left an amount of $76,326 as the net cost of development.

The other sources of income, such as the care of graves, the rental of the receiving tomb, and certain miscellaneous items, also required some labor during this period. It was believed, however, that this work could have been done expediently with the great amount of labor available during the early development period. No deduction, therefore, was made for such labor charges. While an income actually was derived from these several sources, a large percentage of it was necessary for the furtherance of the sales plan.

For the purpose of determining the cost per acre of development, the following facts as to the condition of each section were tabulated, and a percentage showing the total amount of work completed was applied to the area of the section:

Section "A"—Completed except for platting and stone markers —
(75% × 3.65 acres = 2.75 acres)

Section "B"—Completed except for platting and stone markers —
(75% × .99 acres = .75 acres)

Section "C"—Completed except for platting and stone markers and filling of the center to an average of 3 feet in depth in an area of 65,000 square feet —
(50% × 3.15 acres = 1.57 acres)

Section "D"—Completed, lagoon excavated, and the balance mostly unsalable —
(100% × 4.48 acres = 4.48 acres)

Section "E"—Completed except for some little grading and sodding on westerly portion —
(90% × 4.8 acres = 4.32 acres)

Section "F"—Completed in topography except for platting and stone markers on salable portion —
(85% × 4.37 acres = 3.71 acres)

Section "G"— Completed —
(100% × 6.9 acres = 6.9 acres)

Section "H"—Completed except for grading, filling, and sodding on about 10% of the area —
(90% × 4.1 acres = 3.69 acres)

Section "K"—Single grave section completed; balance in rough native state but level overall —
(30% × 1.85 acres = .55 acres)

Section "L"—Half completed as to topographical work and required drainage for disposition of natural spring water and platting and sodding —
(35% × 3.12 acres = 1.09 acres)

Section "O"— Completed —
(100% × 1.14 acres = 1.14 acres)

Section "P"—Development closely followed demand for single graves. Largest amount of work necessary on westerly portion; balance fairly level —
(50% × .72 acres = .36 acres)

Total completed acreage 31.31 acres.

The total actual net cost of development of $76,326 (stated at March 1, 1913, price levels), therefore, provided an average cost of $2,440 per acre.

After deducting the area of the completed portion of the sections, 31.3 acres, from the total area of the sections, 85.4 acres, 54.1 acres remained to be completed.

The application of the unit development cost of $2,440 per acre, based upon prevailing 1913 prices, to the undeveloped area of 54.1 acres produced a total of about $132,000.

A further cost of $5,000 was included for the development of the river bank, bringing the figure to $137,000. To this amount, ten per cent was added for contingencies, resulting in a total cost of future development of $150,000, or six and four-tenth cents per square foot of remaining salable area.

PERPETUAL CARE FUND

The guarantee of a perpetual care fund by the Washington Highlands Cemetery Association to furnish complete maintenance of the grounds and buildings required the setting aside of a definite sum of money from the sale of lots to provide a sufficient return of interest to amply pay all the actual maintenance costs and provide an additional contingency fund.

The annual cost of maintenance, based upon 1913 prices and the study of labor and materials as previously discussed, was computed as follows:

Section care—		
85.4 acres × $50 per acre		= $4,270
Roads—		
6.8 miles × $125 per mile		= 850
Materials		= 500
Cleaning of total area—		
95.5 acres × $40 per acre		= 3,820
Care of trees—		
95.5 acres × $30 per acre		= 2,865
Water and drain repairs		= 600
General repairs of buildings and equipment		= 1,200
Supervision foremen	$960	
Assistants	720	
		= 1,680
Seeds and shrubs—		
85.4 acres × $6.00 per acre		= 512
Tools		= 100
Superintendence		= 2,000
Office expense—		
Insurance, telephone, and supplies		= 300
Fuel and light		= 250
Depreciation on buildings—		
$23,066 × 1%		= 230
Maintenance of river bank		= 300
Total		$19,477

The actual labor costs making up this total, excepting the foremen and assistants, amounted to approximately $14,000 and provided a continuous employment roll of twenty-four men throughout the twelve months of the year in accordance with the plan of the Association. For the purpose of conservatism, an additional allowance of fifteen per cent was added to the amount $19,477 for contingencies, resulting in a total of $22,400.

A fair return upon monies invested in trust funds in 1913, based upon local investigations, was found to be four per cent. A total of $560,000, therefore, was necessary to provide this annual income of $22,400.

The perpetual care fund as of March 1, 1913, totaled $104,000, thus requiring an additional amount of $456,000 to be secured from the sale price of lots over the remaining period necessary for complete sale of the enterprise.

The required perpetual care fund of $456,000, therefore, resulted in a unit cost of 19.4 cents per square foot when applied to the total remaining salable area. The total required expenditures comprising the development cost and the perpetual care fund resulted in a unit cost of 25.8 cents per square foot.

GROSS INCOME

The gross income to be derived from the enterprise consisted principally of the sale of lots and graves. It should be noted that the annual income from these sales prior to 1913 did not necessarily check with the company's books as to actual payments received because of the sales plan which allowed for deferred payments, with interest, over a period of twelve to eighteen months. Therefore, adjustments were made to include the total sales price in the year in which the property was actually sold.

Other major classifications of income consisted of certain items which would provide revenue during the entire life of the property and certain items which would provide revenue during only the period of disposition and burial.

A brief resume of each item is included here for the purpose of clarification:

Rental of Receiving Tombs: The income derived from the rental of receiving tombs was largely dependent upon weather conditions for any given year. Long cold winters, resulting in frozen ground for two or three consecutive months, caused the accumulation of bodies in the receiving vault. A rental of $3.00 per month was charged in 1913 for this storage. Many bodies were also stored here pending the erection of a mausoleum or the purchase of a lot or grave. This income was almost entirely profit except for maintenance and depreciation of the building, which were provided for under that heading.

Interments: The classification "Interments" included the digging, closing, seeding, and sodding of graves. The charge in 1913 was $7.00 per adult grave. (The sale price of single graves included this work up to 1910, but a segregation was made based upon the charge of interments in lots.) The opening and preparation of a grave required an average of eight hours' labor, or one man's time for an entire day; four hours were required for the filling and sodding; and four hours were also allowed for maintenance of the grave during the period of settling and growth. This amounted to a total of sixteen hours (two days' work), or $4.00, based upon normal 1913 prices, thus allowing for an apparent profit of $3.00 for each interment. The depreciation and replacement of tools were provided for under that heading.

Foundations and Labor: The "Foundations and Labor" classification of income covered the erection of stone memorials and mausoleums on lots, including excavation, cost of mixing and pouring cement, and labor required in the erection and setting of the stone. This income was largely dependent upon the number of interments. An analysis made by the superintendent indicated that little profit was derived from this source, as the labor and material costs were almost equal to the charges made for the service.

Farm Produce: The "Farm Produce" income was definitely cut off in 1912 upon the discontinuance of the growing of such produce.

Care of Graves: The "Care of Graves" proper was provided for by annual charges for each of the various services rendered: watering, composting the top soil, dressing, sodding, planting, and care of floral adornments.

Perpetual care arrangements for these services were also provided by the deposit of a lump sum in the Association's Perpetual Contract Fund, the interest on such deposit being devoted to these specific purposes.

The study of costs and labor efficiency indicated that in 1913 one man could care for 300 graves upon a permanent basis at a salary of $600 per year, resulting in a cost of $2.00 per grave, which was identical with the annual charge made. This $2.00 per annum did not provide for the cost of water and equipment, but the general character of the development was greatly enhanced by this care at little cost to the Association.

Planting of Graves: The cost of planting ivy, myrtle, or other floral adornments was borne by the purchaser. For the sake of uniformity and permanence, however, this work was contracted for by the Cemetery Association, and the cost of the planting and labor, together with replacements in case of sickly plants or because of storms, amounted to nearly the total charges.

Miscellaneous: The "Miscellaneous" items consisted mainly of the trimming and lining of graves with evergreen at the time of burial, the sale of slate vaults for the enclosure of caskets, and the rental of the lowering device maintained by the Association.

It was concluded that the profits from the annual contracts for the care and planting of graves, together with the interest to be derived from the perpetual care fund as it increased, would provide for the maintenance of the cemetery. The 1912 income from the Perpetual Care Fund alone was $3,875, or $125 per acre as compared with the required $230 per acre. This annual maintenance cost was directly based upon the area of the completed portion of the enterprise of 31.3 acres. The cost of superintendence and actual labor was minimized by the continuity of employment of labor for both this work and that of development, thus allowing for a minimum waste in labor which was the largest single item of expense of both classifications.

VALUATION

The fair market value of the cemetery was directly reflected in the profit that would accrue from the sale of the burial space, with consideration to the ultimate date of realization. The increase in the sales price of lots from thirty cents per square foot in 1894 to seventy-five cents per square foot in 1913 showed an average of two and three-tenths cents per square foot per annum, or seven and one-half per cent over and above the 1894 sales price. For the purpose of conservatism, these 1913 average unit prices were adopted as the *base* sales price of the unsold portion of the total salable area. The evident future increase in price was determined as equitably providing for the deferred realization over the normal selling period.

Upon this basis, the gross realization value of the cemetery, including all buildings and equipment, was determined to be as follows:

Present Sales Value of Remaining Salable Area—		
2,186,400 sq. ft. at 75c per sq. ft.		$1,639,800
167,200 sq. ft. at 30c per sq. ft.		50,160
Total		$1,689,960
Cost of Completion	$150,000	
Perpetual Care Fund	456,000	606,000
Remainder		$1,083,960

The management and superintendence of the cemetery up to 1913 included all arrangements for the selling of lots and graves, except for the small amount of areas sold by ministers, Sunday school teachers, etc., who were paid a small commission by the Cemetery Association. This plan was to be discontinued before 1913 and, in fact, was definitely discarded in 1916. It was believed, however, that a charge of ten per cent of the gross sales price was reasonable to provide for selling costs after 1913.

The deduction of ten per cent, or $168,996, together with the cost completion and the Perpetual Care Fund in the amount of $606,000 from the gross sales price of $1,689,960, provided a net realization of about $914,964.

It was recognized at this point that the realization of the $915,000 would be reflected through annual amounts to be received until the lands were exhausted. It was estimated that this might require about twenty-five to thirty years. This estimate was based upon the annually increasing sales volume, as disclosed by the 1900 to 1915 sales tabulated below:

Year	Lot Sales Sq. Ft.	Grave Sales Sq. Ft.	Total Sq. Ft.	Per cent of Increase Over 1900
1900	18,396	1,723	20,119	100
1905	30,910	2,032	32,942	164
1910	37,396	3,830	41,226	205
1915	48,813	5,612	54,425	271

These totals indicated an increase of 171 per cent in fifteen years, or an average of 11.4 per cent per annum, equivalent to about 2,200 square feet per year.

With consideration to the gradual depletion of Forest Park Cemetery, an increase of at least this amount — and probably more — could have been reasonably anticipated. This indicated sales by years and a total sales period as follows:

Year	Lot Sales Sq. Ft.	Grave Sales Sq. Ft.
After March 1, 1913	34,347	4,317
1914	47,920	5,382
1915	48,813	5,612
1916	49,242	5,818
1917	50,000	6,000
1918	52,000	6,200
1919	54,000	6,400
1920	56,000	6,600
1921	58,000	6,800
1922	60,000	7,000
1923	62,000	7,200
1924	64,000	7,400
1925	66,000	7,600
1926	68,000	7,800
1927	70,000	8,000
1928	72,000	8,200
1929	74,000	8,400
1930	76,000	8,600
1931	78,000	8,800
1932	80,000	9,000
1933	82,000	9,200
1934	84,000	9,400
1935	86,000	9,600
1936	88,000	....
1937	90,000	....
1938	92,000	....
1939	94,000	....
1940	96,000	....
1942	98,000	....
1944	100,000	....

Upon the basis of sales as shown in the above schedule, the salable lands would have been virtually exhausted by 1945; the graves would have been completely sold by 1936.

The Cemetery Association had planned to institute a general price increase in 1913. As a part of the appraisal, the annual increase in unit prices necessary to provide a return of six per cent[1] upon the unrealized value of the cemetery was tabulated as follows:

Year	Basic Price	Compound Factor	Net Sales Price	Cost of Completion and Perpetual Care Fund (Sq. Ft.)	Sales Costs	Total Unit Sales Price
1913	39c	....	$ .390	25.8c	7.2	$ .72
1915	39	1.1236	.438	25.8	7.7	.77
1920	39	1.5036	.586	25.8	9.4	.94
1925	39	2.0122	.785	25.8	11.6	1.16
1930	39	2.6928	1.050	25.8	14.5	1.45
1935	39	3.6035	1.405	25.8	18.5	1.85
1940	39	4.8224	1.880	25.8	23.7	2.37
1945	39	6.4534	2.517	25.8	30.8	3.08

Column 1 shows various advance dates by years; Column 2 shows the basic price of thirty-nine cents; Column 3 shows the factor required to produce a compound return of six per cent per annum at these various future dates; Column 4 shows the resulting unit price; Column 5 shows the cost of completion and Perpetual Care Fund in square foot price; and Column 6 shows the sales costs which represent ten per cent of the required unit sales price, as shown in Column 7.

The net realization from sales as previously set out — $915,000 — reflected the basic price of thirty-nine cents a square foot ($915,000 ÷ 2,353,600 sq. ft. = $.39 per sq. ft.). This unit sales price represented the unit at which the lots would have to be sold at various future years in order for the company to realize a net return of thirty-nine cents per square foot, plus accrued compound interest.

In this foregoing computation it was recognized that the cost of sales and the Perpetual Care Fund reserves would not be expended or set aside until the lots were sold. It was not necessary, therefore, to secure a return upon the total sales price — merely the 1913 value of the enterprise.

While economic conditions existing in 1913 were the basis of this valuation work, it is interesting to note that the 1930 average unit sales price of lots in this cemetery was $1.85 per square foot as compared with the foregoing required unit of $1.45. Obviously, therefore, the required increase in annual increment was thirty per cent greater than necessary and reflected additional profits and value over and above the amount as represented by the total of $915,000 apparent in 1913.

The appraiser concluded and expressed the opinion in the report that $915,000 was the actual value of the enterprise as of March 1, 1913, and that the proper interpretation of the meaning of "Fair Market Value" required that this type of analysis and study be made. It follows, therefore, that this approach and compilation of a report was necessary for compliance with the intent of the tax regulations. It was this value that was adopted as the base for depletion purposes — the underlying reason for the appraisal.

An "across - the - table" discussion of value with the great majority of Realtors or lawyers would lead to a meeting of the minds on this analysis. The several decisions by the tax authorities and the courts, however, lead only to confusion as to what constitutes "value" in retrospective cemetery appraisals.

In the previous article, which appeared in the April, 1937, issue of the *Journal*, the Supreme Court was quoted in the decision that the sales price of individual lots is the proper basis of determining the value of other lots for depletion purposes. It may be enlightening to quote from a decision by the Board of Tax Appeals in 1934 (Fairmount Cemetery Association, Petitioner, vs. Commissioner of Internal Revenue, Respondent) which states:

> "Lansdon: The petitioner acquired 560 acres of land in 1890, at a cost per acre not disclosed by the record. Carved out of such land it sold certain cemetery lots in 1927, 1928, 1929, and 1930 for amounts which the respondent has determined resulted in large profits. In substan-

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[1] This rate of six per cent was adopted as being a fair return upon this character of investment as of 1913.

tially identical sections, the Revenue Acts of 1926 and 1928 provide that the basis for determining gain or loss from the disposition of property acquired before March 1, 1913, shall be cost, or fair market value at that date, whichever is greater. Although not proved for the record, all the circumstances indicate that the lands here involved had a fair market value at the basic date greatly in excess of their cost, and we so find.

"The land in question was bought by the acre and sold by the square foot. The petitioner bases its claims on an average value at March 1, 1913, of 78 cents per square foot, which was the value fixed upon unimproved lands by the retrospective appraisal made in 1927. The respondent has classified the lands as to their condition on the basic date into improved, partly improved, and unimproved categories, and has determined fair market values thereof in the respective amounts of 80 cents, 40 cents, and 3.968 cents per square foot. Based on the value claimed by the petitioner, its 540 acres of lands not then sold or improved for burial purposes had a fair market value at March 1, 1913, of approximately $34,000 per acre, or $18,000,000 for the entire tract, which seems a little high even for acreage located ten miles from Denver. The values per square foot as of March 1, 1913, determined by the Commissioner give the acreage values as of that date in the respective amounts of $1,102; $11,020; and $22,040.

"It is clear that the value claimed by the petitioner results in an absurdity which impeaches the credibility of all the evidence adduced in its support. The meaning of fair market value is well fixed. It is what property can be sold for at a given date in a transaction in which vendor and vendee are equally free to act. It is true that petitioner has proved some sales of improved lots about two years before March 1, 1913, at prices approximating the values here claimed. The record discloses, however, that at the basic date the land owned by petitioner was sufficient to supply all its demands for burial lots for 200 years. The appraisal of 78 cents per square foot and the expert evidence offered in connection therewith by the petitioner ignores this situation. If it be assumed that all the lots on hand would be sold over a period of 200 years, it follows that on an average the receipt of the sales price by the petitioner would be deferred for 100 years. It would then become necessary to determine the present worth of $34,000, the value per acre claimed in 1913, but not realizable until 2013, which, at a discount rate of six per cent, would be $100.20."[3]

This decision substantiates the recognized fact that the ultimate realization date was many years away (200 years as stated) for the potential sale of the last acreage and that the deferment was of necessity a basic consideration in determining "Fair Market Value" as of March 1, 1913.

It must be recognized that there is of necessity an economic and practical limit in the ultimate price per square foot which may be contemplated in cemetery lands. In this appraisal the areas to be developed and sold, and the rate of growth indicated, required (in order to pay interest and carrying charges through price increases) a price during the final year of about $3.00 per square foot. This figure is not out of line with the prices of cemetery lots of this character during the later stages of development. The entire computation and valuation were, therefore, considered to be fair and reasonable.

In the event that a much greater period would be required to market the lands and the unit price indicated thereby should reach much greater levels than could be anticipated in actuality, then the areas considered as "active" would be reduced and surplus lands placed upon an acreage value basis for other uses.

It should be remembered that in all appraisals as of March 1, 1913, the intent is to adopt the conditions prevailing on that date. All subsequent data, whether actual or estimated, are considered to be used simply as a forecast that might have been reasonably made as of the basic date.

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[3] Note: See page 251 for a discussion of the latest decision handed down by the United States Court of Appeals for the District of Columbia, July 12, 1937.—Ed.

Appraisal Procedure of Federal Agencies

By Percy E. Wagner, M.A.I.

YOU will note that this discourse is entitled *Appraisal Procedure* rather than *Appraisal Methods*. This distinction is significant since there is no one specific *method* of valuation used by any agency in arriving at a value estimate.

This, however, is not an unusual situation, and Federal agencies deserve no indictment: In most appraisals we find a variety of methods used in arriving at a conclusion. Only in certain tax offices do we find one method adopted, and the fairness of the conclusion in such offices is often subject to great criticism. However, in such cases, requirement of uniformity must be adhered to and the use of one method may be largely unavoidable.

As a prelude to the discussion of "Appraisal Procedure of Federal Agencies," acknowledgment is made to the kindness and generosity of the officials approached in gathering the data necessary for this article. All were gracious and obliging, all recognized the inadequacy of their methods, and all are striving to improve their procedures. A common weakness seems to be present, and that is the inadequacy of data in a form which will be helpful.

This again is not so much a fault as the realization of the tremendous task which confronts the agency in question. A problem which is national in scope bears some relation to the local data gathered, but to correlate such data so that a national policy can be administered is difficult. Realizing this difficulty is primary; facing it is in the nature of a challenge; and solving it is the constant objective. In the solving, one realizes the inadequacy of any one method, and, therefore, every method available is used.

With the above as a prelude, the problem and following analysis of methods of procedure used by the various agencies of the Government may be better understood.

H.O.L.C. Appraisal Procedure

The Home Owners' Loan Corporation was brought into being overnight, as a result of the real estate collapse. The emergency required quick action, and thus speed in organization and operation. When Philip W. Kniskern was called upon to establish an appraisal procedure to be used even in the remote corners of the nation, his task was to formulate a policy which would serve a distressed condition and yet act as a brake to the human errors which would present themselves. A "three-method approach" system was evolved. This appears to have been as good a solution as possible. The methods of summation, market, and capitalization left out no desired method of appraisal. From an average of the three it was thought that a correct answer could be found; and at least no criticism of a desire to obtain the correct answer could be substantiated.

The individual cost estimates used in the various offices were obtained with care, the tables of depreciation and estimates of obsolescence were carefully compiled, land values where found by comparison, and the result was a depreciated reproduction cost. Market values were as accurate as available sales and listings, which, during such times, were at best a poor indication of the true value. The capitalization method served its purpose as a brake to an over-valuation and equalized the general optimism which was prevalent among the appraisers.

Since its inception the Home Owners' Loan Corporation has revised its approaches considerably. The emergency has passed; experience and consideration have tempered and refined the procedure, and a comprehensive system has taken the place of the original. However, the earmarks of the original system remain, and the same methods are used to reach a conclusion. The appraiser uses a depreciated reproduction cost, a market and comparative analysis, and the capitalization method in the gathering of his information which leads him to his conclusion.

The finished report is comprehensive, detailed, and requires consideration of all factors of value. In the hands of a competent cost estimator, real estate man, and mathematician, an accurate estimate of value can be made. The report form is complete, well compiled, and is the result of much thought and experience. The necessary data, together with the required analysis and the application of judgment, result in a fair conclusion. The Home Owners' Loan Corporation and its appraisal staff have contributed much to real estate appraisal education and are one of the most potent influences in the real estate field.

The form used in analyzing acquired properties is the H.O.L.C. Form 608 and consists of four pages 8½ inches by 14 inches in size.[1]

PROCEDURE OF THE FEDERAL HOME LOAN BANK

Closely allied to the Home Owners' Loan Corporation is the Federal Home Loan Bank. Until recently no appraisal forms nor procedures were sponsored. In September, 1936, an appraisal guide, in the form of a letter and application with appraisal report attached, was mailed to the member institutions. The summation method, with depreciated reproduction cost, market analysis and capitalization method are the approaches used. The value estimate is obtained after an analysis of the various results and leads the appraiser to his final conclusion. This again is a matter of gathering the data required to make three computations and thereby arrive ultimately at a conclusion according to judgment.

In the capitalization method, as suggested by the Federal Home Loan Bank, the remark is made that the gross income is most often used. Some criticism has been directed to this statement. There is, however, merit in the statement that net income is difficult to gauge in owner-occupied homes. As the value obtained in the appraisal report is the result of weighing the conclusions reached under each of the three methods used, we have the same procedure as that followed by the Home Owners' Loan Corporation. The Federal Home Loan Bank, however, uses its own printed form for the appraisal report, which is somewhat shorter than the corresponding form of the Home Owners' Loan Corporation and is reproduced herewith on pages 242 and 243.

PROCEDURE OF THE FARM CREDIT CORPORATION

The Farm Credit Corporation, under the supervision of P. L. Gaddis, approaches its problems scientifically and with the benefit of much research data. In a recent article read before the Annual Convention of the American Farm Economic Association, Mr. Gaddis discussed in great length the appraisal procedure used in the organization of which he is the Chief Appraiser.

Methods and procedure are used and conclusions reached only after most diligent research and analysis. Mr. Gaddis discards the capitalization method as unsound for farm valuation, although he recommends it as a check. Conditions which create and limit net income are subject to such variance as to produce conclusions that are widely different and frequently unreliable. Operating owners and tenants are so different in their abilities, and management plays such an important part in the amount of net income, that similar rates are not applicable to every condition. A variance of rates from

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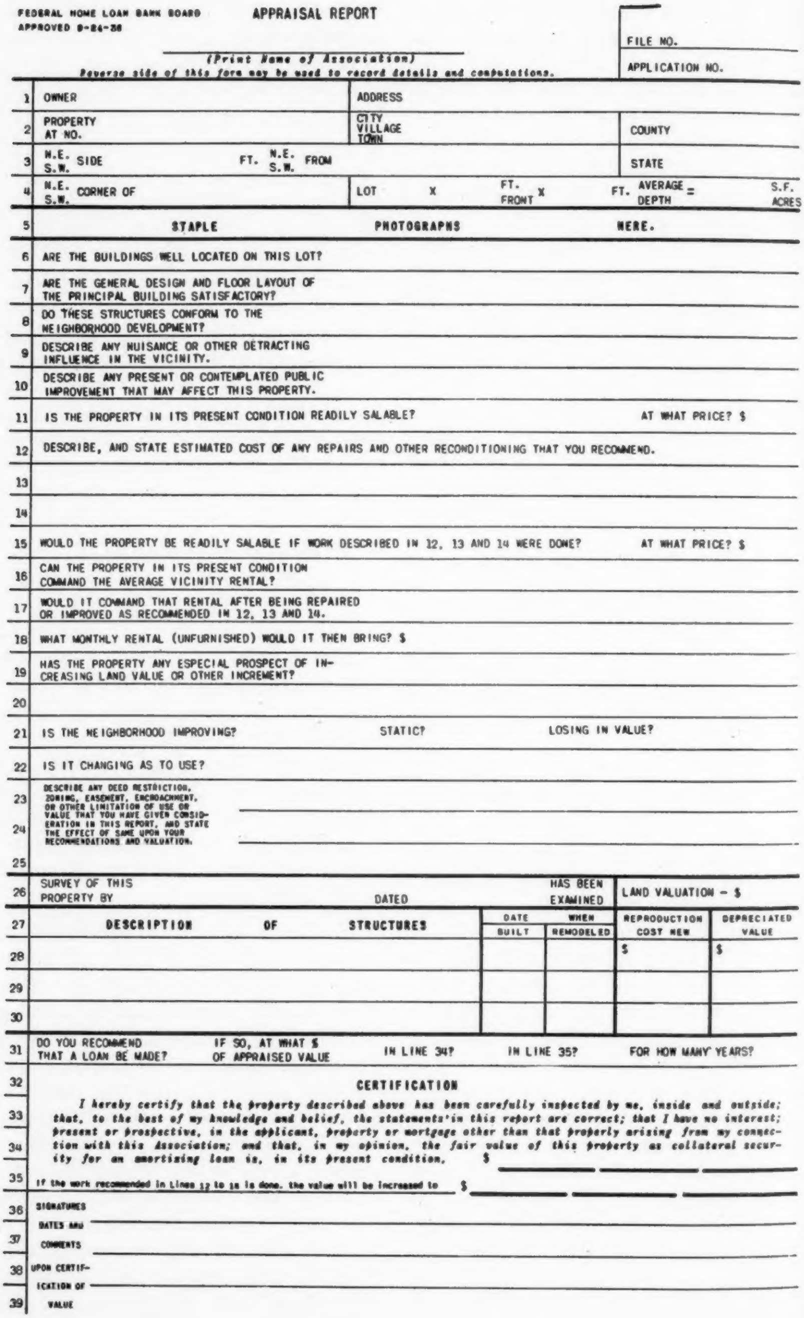
[1] The H.O.L.C. Form was reproduced in the January, 1937, issue of the *Journal* on pages 63 to 66, accompanying the article by Mr. Leonard Downie.



FEDERAL HOME LOAN BANK BOARD
APPROVED 8-24-38

APPRAISAL REPORT

FILE NO.

APPLICATION NO.

(Print Name of Association)

Reverse side of this form may be used to record details and computations.

1 OWNER ADDRESS

2 PROPERTY AT NO. CITY VILLAGE TOWN COUNTY

3 N.E. S.W. SIDE FT. N.E. S.W. FROM STATE

4 N.E. S.W. CORNER OF LOT X FT. FRONT X FT. AVERAGE DEPTH = S.F. ACRES

5 STAPLE PHOTOGRAPHS HERE.

6 ARE THE BUILDINGS WELL LOCATED ON THIS LOT?

7 ARE THE GENERAL DESIGN AND FLOOR LAYOUT OF THE PRINCIPAL BUILDING SATISFACTORY?

8 DO THESE STRUCTURES CONFORM TO THE NEIGHBORHOOD DEVELOPMENT?

9 DESCRIBE ANY NUISANCE OR OTHER DETRACTING INFLUENCE IN THE VICINITY.

10 DESCRIBE ANY PRESENT OR CONTEMPLATED PUBLIC IMPROVEMENT THAT MAY AFFECT THIS PROPERTY.

11 IS THE PROPERTY IN ITS PRESENT CONDITION READILY SALABLE? AT WHAT PRICE? $

12 DESCRIBE, AND STATE ESTIMATED COST OF ANY REPAIRS AND OTHER RECONDITIONING THAT YOU RECOMMEND.

13

14

15 WOULD THE PROPERTY BE READILY SALABLE IF WORK DESCRIBED IN 12, 13 AND 14 WERE DONE? AT WHAT PRICE? $

16 CAN THE PROPERTY IN ITS PRESENT CONDITION COMMAND THE AVERAGE VICINITY RENTAL?

17 WOULD IT COMMAND THAT RENTAL AFTER BEING REPAIRED OR IMPROVED AS RECOMMENDED IN 12, 13 AND 14.

18 WHAT MONTHLY RENTAL (UNFURNISHED) WOULD IT THEN BRING? $

19 HAS THE PROPERTY ANY ESPECIAL PROSPECT OF INCREASING LAND VALUE OR OTHER INCREMENT?

20

21 IS THE NEIGHBORHOOD IMPROVING? STATIC? LOSING IN VALUE?

22 IS IT CHANGING AS TO USE?

23 DESCRIBE ANY DEED RESTRICTION, ZONING, EASEMENT, ENCROACHMENT, OR OTHER LIMITATION OF USE OR VALUE THAT YOU HAVE GIVEN CONSIDERATION IN THIS REPORT, AND STATE THE EFFECT OF SAME UPON YOUR RECOMMENDATIONS AND VALUATION.

24

25

26 SURVEY OF THIS PROPERTY BY DATED HAS BEEN EXAMINED LAND VALUATION – $

27	DESCRIPTION OF STRUCTURES	DATE BUILT	WHEN REMODELED	REPRODUCTION COST NEW	DEPRECIATED VALUE
28				$	$
29					
30					

31 DO YOU RECOMMEND THAT A LOAN BE MADE? IF SO, AT WHAT $ OF APPRAISED VALUE IN LINE 34? IN LINE 35? FOR HOW MANY YEARS?

32 CERTIFICATION

33 *I hereby certify that the property described above has been carefully inspected by me, inside and outside; that, to the best of my knowledge and belief, the statements in this report are correct; that I have no interest;*

34 *present or prospective, in the applicant, property or mortgage other than that properly arising from my connection with this Association; and that, in my opinion, the fair value of this property as collateral security for an amortizing loan is, in its present condition,* $

35 If the work recommended in Lines 12 to 14 is done, the value will be increased to $

36 SIGNATURES

37 DATES AND COMMENTS

38 UPON CERTIFICATION OF

39 VALUE

40	DESCRIPTION OF DISTRICT AND STREET												
41	A % OF DISTRICT OCCUPIED BY		B		C AGE AND DENSITY		D NEIGHBORHOOD RATING		E STREET SERVICE		F DISTANCE TO		G ANNUAL INCOME OF TYPICAL RESIDENT
42	PRIVATE RESIDENCES		ASIATIC		NEW		V. GOOD		SIDEWALKS		STREET CAR		FROM $
43	ROOMING HOUSES		MEXICAN		OLD		GOOD		PAVEMENT		BUS LINE		TO $
44	APARTMENT BUILDINGS		NEGRO		V. OLD		FAIR		WATER		GRADE SCHOOL		
45	RETAIL STORES		AMER. WHITE		SPARSE		POOR		SEWERS		HIGH SCHOOL		
46	INDUSTRIES		FOREIGN WHITE		MEDIUM		V. POOR		ELECT.		COMMUNITY BUSINESS DISTRICT		
47	VACANT				BUILT-UP				GAS		PRINCIPAL BUSINESS DISTRICT		

48	DESCRIPTION AND VALUATION OF LAND										
49	LEVEL		LAWN AND GARDEN		LOT WIDTH		AVERAGE DEPTH	UNIT OF VALUE	QUANTITY	UNIT. PRICE	LAND VALUE
					FRONT	REAR					
50	SLOPING		SHRUBS AND TREES							$	$
51	WELL GRADED		SCREEN PLANTING								
52	ELEV. IN L.F. ABOVE STREET		DRIVEWAY DESCR.								
53	ELEV. IN L.F. BELOW STREET										

54	DESCRIPTION AND VALUATION OF IMPROVEMENTS												
55	PRINCIPAL BLDG.		EXTENT OF REMODELING										
56													
57	NO. OF UNITS		BASEMENT		NO. FLOORS ABOVE BASM'T	EXTERIOR WALL CONS.	NUMBER OF ROOMS				HEATING PLANT		
	RESIDENTIAL	BUSINESS	FULL	PART			BATH-PLAIN	BATH-TILED	BED	OTHER	NO. UNITS	TYPE	
58													
59													
60													
61													
62													
63													

64	COMPUTATIONS									
65	A IMPROVEMENT ITEM	B	C DIMENSIONS	D	E QUANTITY CF OR SF	F UNIT PRICE	G REPRODUCTION COST NEW	H DEPRECIATION	J	K DEPRECIATED VALUE
		W	L	H				PHYSICAL	OTHER	
66						$	$	$	$	$
67										
68										
69										

70	INCOME ANALYSIS AND APPRAISAL SUMMARY							
	A	B	C	D		E	F	G
71	RENTAL UNIT	ACTUAL ANNUAL RENTAL, UNFURN.	*ESTIMATED FAIR FUTURE RENTAL	*ESTIMATED FUTURE ANNUAL EXPENSES		DEPREC. VAL. OF IMPRVTS.	SUM OF 66 TO 69	$
72	1.	$	$	REPAIRS & OTHER MAINTENANCE	$	VALUE OF LAND	AS SHOWN IN 50 TO 53	
73	2.			MANAGEMENT AND MISCELLANEOUS		VALUE BY SUMMATION	SUM OF 71 & 72	
74	3.			TAXES		MARKET VALUE	DEDUCED FROM COMP. SALES, ETC.	
75	4.			INSURANCE		VALUE BY CAPITALIZING	GROSS REVENUE B77 AT $	
76	5.			DEPRECIATION ALLOWANCE			GROSS REVENUE C77 AT $	
77	TOTAL			ALL CHARGES EXCEPT INTEREST			NET INCOME, D78 AT $	
78	ESTIMATED FUTURE ANNUAL NET INCOME			*AFTER WORK IN 12 TO 14 IS DONE		VALUE AS COLLATERAL SECURITY FOR AMORTIZING LOAN		

one per cent to eight per cent would not correct the errors which appear from the use of capitalization alone. Mr. Gaddis favors the following fundamental approach: The particular area in which the farm is located is first studied in order to form a general opinion of value in the area, which is followed by an analysis of the property in question to classify its land uses. The buildings are next measured and their utility determined. After determining the values of the various parts, the unit as a whole is valued. A careful estimate of income and expenses is made both from the standpoint of the operator and of the typical operator in the vicinity, with a check against the landowner-operator and the tenant-managed farm. A check is then made of the live stock units and their carrying capacity. The property is compared with other typical farms which have been appraised in the area, with sales, and with listings, and adjustments are allowed for varying conditions. A general check with farmers and business men on overall values is made, and the problems are studied from a long range viewpoint. Allowances are then made for non-agricultural uses. From the above data a value is estimated.

The value of a farm as a home, as well as its value from the standpoint of income and allied uses, must be recognized in farm appraisal procedure. Mr. Gaddis recognizes this fact in his approach to value. To approach the problem from either of the above viewpoints is insufficient, but by combining them and using the data available, an accurate estimate may be anticipated. Mr. Gaddis believes that by gathering and correlating data, the influence of land booms and depressions can be eliminated. He is to be commended on his forward-looking approach, and, with the information available to him, he will undoubtedly perform a service to the farmer and to the lender which will bring them closer together in what, at times, is a wide divergence of opinion.

The following is quoted from Mr. Gaddis' paper on the steps an appraiser uses in valuing a farm:

> "To summarize, in making an appraisal, the appraiser will take the following steps: (1) make a study of the unit in its settings, including trends in production, markets, and home uses; (2) make a complete inspection of the property, carefully classifying the land by type, utilization, and production; (3) accurately measure and determine the utility of each building; (4) assign acre values and individual building values; (5) value the unit as a whole; (6) carefully estimate farm income and expenses under the present management and under typical operation; (7) check by rate of return to representative owner-operator and to landlord; (8) check live stock units with carrying capacity or staple cash-crop farms by productive capacity; (9) check with type farms or other units appraised previously in this and other areas; (10) check with sales prices under different conditions, adjusted for abnormality; (11) check with the opinion of sound and substantial farmers and business men of the area; (12) make appropriate allowance in his all-asset values for any non-agricultural features. His report will contain a complete explanation."

PROCEDURE OF THE RECONSTRUCTION FINANCE CORPORATION

The Reconstruction Finance Corporation issues no bulletins, manuals, nor instructions on appraisal methods. It is, in fact, a real estate lending agency and does not, strictly speaking, engage in appraising as such. The application for a loan is submitted to a local committee which analyzes the property from an investment standpoint, including independent reports and appraisals submitted in connection with the application. This committee may require further information or reports; or it may and does make investigations by salaried employees. The report must be detailed, comprehensive, and germane to the matters involved, such as markets, production, operation, and profits as foundational to real estate utilization and value. The several approaches apply as the circumstances warrant.

The ratio of the loan to the value varies with a demonstrated tendency toward conservatism. In making a loan, it is contemplated that fifty per cent of the loan must be amortized from available net income during the first ten years. Enterprises having definite stability, a past record of sound operation, and a good future outlook are the only ones which can anticipate favorable consideration.

PROCEDURE OF THE FEDERAL HOUSING ADMINISTRATION

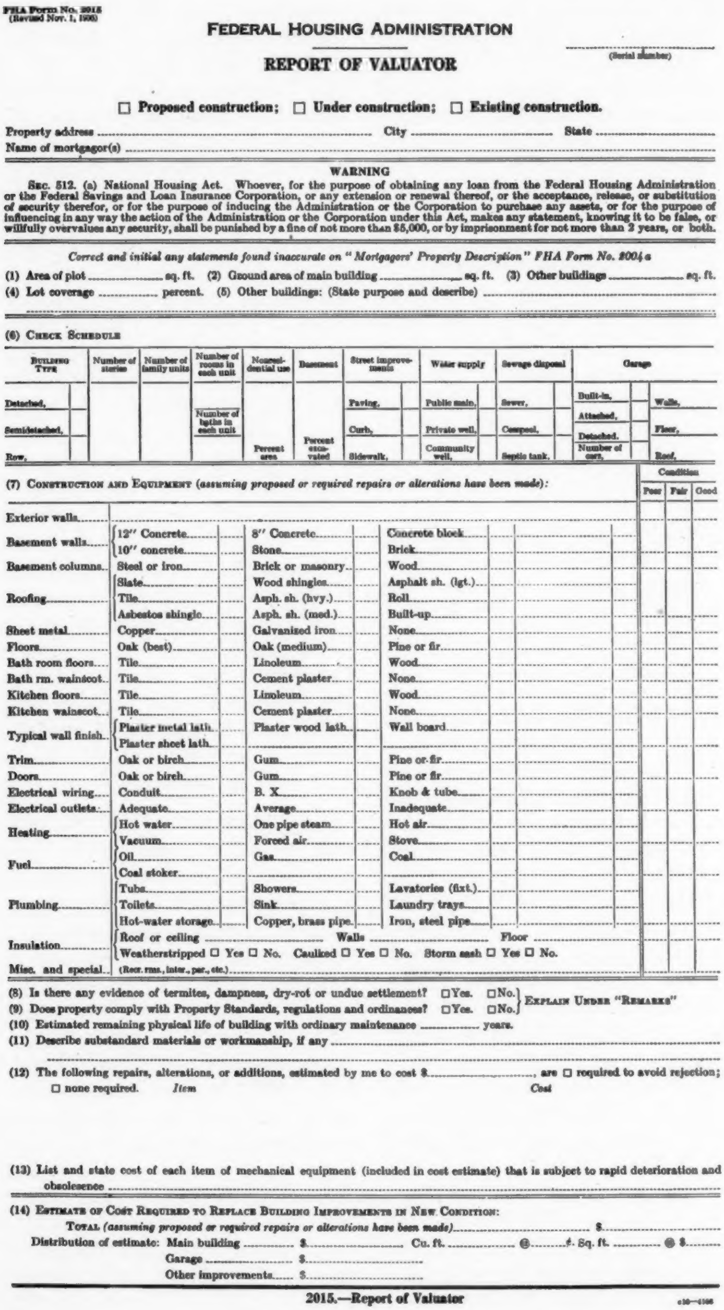
The last agency for our consideration is the Federal Housing Administration. Under the guidance of Frederick M. Babcock, a manual has been printed which presents the entire procedure of the Underwriting Department. This manual contains several hundred pages and may be obtained by request from the offices of the Federal Housing Administration in Washington, D. C.

The procedure of the Federal Housing Administration is clearly defined in this manual and leaves no doubt in the mind of the reader as to methods, procedures, and purpose of the valuation. The approach is from the viewpoint of mortgage lending, as the Administration is engaged in the insurance of loans for a period up to twenty years and up to eighty per cent of the valuation. The added factor of grouping for mutual mortgage purposes requires a procedure known as "risk rating." To adequately explain the entire procedure would require a digest of the manual, and this is not possible in the space allotted to this paper.

Briefly explained, the valuation procedure involves the analysis of every factor of value which may be inherent in a property. An estimate of value is attained by a system of bracketing. In the process of bracketing every known procedure may be used. Capitalization, market, summation, depreciated reproduction, and comparative values are used. The value must, however, be the product of a clear analysis of the factors which make up the value. Some one method will be predominant in the procedure, and the estimate will reflect that method which appears to be most applicable. As an example of the foregoing, the summation method may be the leading method used in a property which is the ideal in every respect. This may be accomplished by erecting a new building in a location which demands that particular type of structure. Comparative valuations are used when the market conditions reflect values in typical structures. Capitalization is predominant when neighborhoods have reached a condition where rental of properties is their only sound return. Bracketing thus fits properties into their proper status for the selection of a proper appraisal method.

Predictions of social and economic trends, rental trends, reproduction costs, neighborhood and location analyses, income and value levels, and city growth and housing needs are all a part of the analyses of the valuator. No valuation is made until this research and analytical work is done. Files are available to the valuator, and data in abundance are provided.

The report forms bring out the salient features which have led the valuator to his conclusion. The "risk rating" system is an integral part of the report, and the estimate reached is traceable to the feature ratings. The report, manual, and research data are guides to be used in making an accurate estimate of value. The form (F.H.A. Form Number 2015) is not voluminous and consists of but one sheet, 8½ inches by 14 inches in size, both sides being used for the complete report, and is reproduced herewith on pages 246 and 247.



FHA Form No. 2015
(Revised Nov. 1, [illegible])

FEDERAL HOUSING ADMINISTRATION

REPORT OF VALUATOR

.... (Serial number)

☐ Proposed construction; ☐ Under construction; ☐ Existing construction.

Property address .... City .... State ....
Name of mortgagor(s) ....

WARNING

Sec. 512. (a) National Housing Act. Whoever, for the purpose of obtaining any loan from the Federal Housing Administration or the Federal Savings and Loan Insurance Corporation, or any extension or renewal thereof, or the acceptance, release, or substitution of security therefor, or for the purpose of inducing the Administration or the Corporation to purchase any assets, or for the purpose of influencing in any way the action of the Administration or the Corporation under this Act, makes any statement, knowing it to be false, or willfully overvalues any security, shall be punished by a fine of not more than $5,000, or by imprisonment for not more than 2 years, or both.

Correct and initial any statements found inaccurate on "Mortgagors' Property Description" FHA Form No. 2004a

(1) Area of plot .... sq. ft. (2) Ground area of main building .... sq. ft. (3) Other buildings .... sq. ft.
(4) Lot coverage .... percent. (5) Other buildings: (State purpose and describe) ....

(6) CHECK SCHEDULE

BUILDING TYPE		Number of stories	Number of family units	Number of rooms in each unit	Nonresidential use	Basement	Street improvements		Water supply		Sewage disposal		Garage		
Detached,							Paving,		Public main,		Sewer,		Built-in,		Walls,
Semidetached,				Number of baths in each unit			Curb,		Private well,		Cesspool,		Attached,		Floor,
Row,					Percent area	Percent excavated	Sidewalk,		Community well,		Septic tank,		Detached, Number of cars,		Roof,

(7) CONSTRUCTION AND EQUIPMENT (*assuming proposed or required repairs or alterations have been made*):

									Condition		
									Poor	Fair	Good
Exterior walls											
Basement walls	12" Concrete		8" Concrete		Concrete block						
	10" concrete		Stone		Brick						
Basement columns	Steel or iron		Brick or masonry		Wood						
Roofing	Slate		Wood shingles		Asphalt sh. (lgt.)						
	Tile		Asph. sh. (hvy.)		Roll						
	Asbestos shingle		Asph. sh. (med.)		Built-up						
Sheet metal	Copper		Galvanized iron		None						
Floors	Oak (best)		Oak (medium)		Pine or fir						
Bath room floors	Tile		Linoleum		Wood						
Bath rm. wainscot	Tile		Cement plaster		None						
Kitchen floors	Tile		Linoleum		Wood						
Kitchen wainscot	Tile		Cement plaster		None						
Typical wall finish	Plaster metal lath		Plaster wood lath		Wall board						
	Plaster sheet lath										
Trim	Oak or birch		Gum		Pine or fir						
Doors	Oak or birch		Gum		Pine or fir						
Electrical wiring	Conduit		B. X		Knob & tube						
Electrical outlets	Adequate		Average		Inadequate						
Heating	Hot water		One pipe steam		Hot air						
	Vacuum		Forced air		Stove						
Fuel	Oil		Gas		Coal						
	Coal stoker										
Plumbing	Tubs		Showers		Lavatories (fixt.)						
	Toilets		Sink		Laundry trays						
	Hot-water storage		Copper, brass pipe		Iron, steel pipe						
Insulation	Roof or ceiling .... Walls .... Floor										
	Weatherstripped ☐ Yes ☐ No. Caulked ☐ Yes ☐ No. Storm sash ☐ Yes ☐ No.										
Misc. and special	(Recr. rms., inter., per., etc.)										

(8) Is there any evidence of termites, dampness, dry-rot or undue settlement? ☐ Yes. ☐ No. } EXPLAIN UNDER "REMARKS"
(9) Does property comply with Property Standards, regulations and ordinances? ☐ Yes. ☐ No. } EXPLAIN UNDER "REMARKS"
(10) Estimated remaining physical life of building with ordinary maintenance .... years.
(11) Describe substandard materials or workmanship, if any ....

(12) The following repairs, alterations, or additions, estimated by me to cost $...................., are ☐ required to avoid rejection; ☐ none required. *Item* *Cost*

(13) List and state cost of each item of mechanical equipment (included in cost estimate) that is subject to rapid deterioration and obsolescence ....

(14) ESTIMATE OF COST REQUIRED TO REPLACE BUILDING IMPROVEMENTS IN NEW CONDITION:
TOTAL (*assuming proposed or required repairs or alterations have been made*) .... $....................
Distribution of estimate: Main building .... $.................... Cu. ft. .... @ ....¢. Sq. ft. .... @ $..........
Garage .... $....................
Other improvements .... $....................

2015.—Report of Valuator [illegible]

2015.—Report of Valuator

(15) Estimated remaining economic life of building .... years.

(16) What price could be obtained for this property within a reasonable time on terms usual in the community? (If different from value estimate, explain below.) .... $....................

(17) What is present fair monthly rental value of this property, unfurnished? .... $....................

(18) Will this rental value be sustained during next few years? ☐ Yes; ☐ No. (If "No" explain below.)

(19) Rental spread of properties in the neighborhood .... $.................... to $....................

(20) Value spread of typical properties in the neighborhood .... $.................... to $....................

(21) Typical income level of neighborhood occupancy .... $....................

(22) Indicate present demand for dwelling properties in this area: ☐ None; ☐ Little; ☐ Moderate; ☐ Strong.

(23) Compared with other dwelling properties in this area, will this property at the price reported as its value be: ☐ More salable? ☐ Equally salable? ☐ Less alable? Why? ....

(24) Is change in neighborhood class of occupancy ☐ occurring, ☐ threatening, ☐ remote?

(25) Name existing or threatening adverse influences ....

....

(26) ....% homes vacant in area. (27) ....% owner-occupancy. ☐ Expanding population.

(28) Neighborhood data: ☐ Part of metropolitan area. ☐ Close-in. ☐ Partly built-up..............% ☐ Stationary population.
☐ Isolated community. ☐ Outlying. ☐ Built-up..............% ☐ Declining population.

(29) Transportation: Distance to— Street car .... Rapid transit .... Railroad station .... Bus stop ....

Rating of Property *(Assuming proposed or required repairs or alterations have been made)*

	Physical Security Features	REJECT	1	2	3	4	5	RATING
Durability	Structural Soundness		5	10	15	20	25	
	Resistance to Elements		2	4	6	8	10	
	Resistance to Use		1	2	3	4	5	
Function	Livability and Functional Plan		5	10	15	20	25	
	Mechanical and Convenience Equipment		2	4	6	8	10	
	Natural Light and Ventilation.		1	2	3	4	5	
	Architectural Attractiveness		4	8	12	16	20	
	Total Rating of Physical Security							%
	Adjustment for Nonconformity		12	9	6	3	0	%
	TOTAL RATING OF PROPERTY							%

Rating of Location (Established Rating of Location used for comparison—No. ....)

Feature	REJECT	1	2	3	4	5	RATING
Relative Economic Stability							
Protection from Adverse Influences		4	8	12	16	20	
Adequacy of Transportation		2	4	6	8	10	
Need for Housing		1	2	3	4	5	
Appeal		1	2	3	4	5	
Sufficiency of Utilities and Conveniences		1	2	3	4	5	
Adequacy of Civic, Social, and Commercial Centers		1	2	3	4	5	
Level of Taxes and Special Assessments		1	2	3	4	5	
Topography and Special Hazards		1	2	3	4	5	
TOTAL RATING OF LOCATION							%

ESTIMATE OF VALUE.—In my opinion the value of the property described above, assuming the contemplated improvements or new construction described in exhibits, if any, accompanying FHA Form No. 2004a, or assuming the repairs or alterations or additions, if any, listed under item "*(12)*" have been completed, is .... $....................

Distribution of value estimate: Land .... $.................... @ $.................... per ☐ lot, ☐ fr. ft., ☐ sq. ft.
Main bldg. .... $....................
Garage .... $....................
Other improvements .... $....................

REMARKS.—(Include: (1) justification of "Reject" ratings; (2) reasons for column 1, 2, 3, or 4 rating of "Adjustment for Nonconformity"; (3) information of special importance not required above; (4) brief report on mortgagor if occupant or if seen by you.)

CERTIFICATION.—I, the undersigned, do hereby certify that I have carefully inspected this property; that to the best of my knowledge and belief the statements made in this report are correct; that I have no personal interest, present or prospective, in the property, applicant, or proceeds of the mortgage; that in my opinion the decisions set forth herein are justified; and that I have never inspected this property before except for ....
(When and for whom)

DATE .... (Signed) ....
Valuator. ☐ *Staff.* ☐ *Fee.* ☐ *Per Diem.*

REMARKS: ☐ **Approved as submitted.** ☐ **Approved as modified by me.** ☐ **Disapproved.**

CERTIFICATION.—I, the undersigned, do hereby certify that I have no personal interest, present or prospective, in the property, applicant, or proceeds of the mortgage.

(Signed) ....
Chief Valuator.

DATE ....

U. S. GOVERNMENT PRINTING OFFICE e10—4108

Writing Reports

By GEORGE L. SCHMUTZ, M. A. I.

LANGUAGE is a vehicle of expression. It is designed to convey ideas from one person to another. Writing is an instrument. Its primary purpose is to transfer ideas in such a manner as to cause the least trouble to the recipient. Unfortunately, the written language is clumsy; it lacks the tones, the expressions, and the gestures of the spoken word.

According to one authority, "Those are the most effective modes of expression which absorb the smallest amount of the recipient's attention in interpreting the symbols of thought, leaving the greatest amount for the thought itself."

REPORT WRITING

The appraisal report is a form of technical writing employed in the transmittal of appraisal information. It is intended to give the answer to a question of value and to state the reasons upon which the answer is based. The weaving of words into a clear, concise, yet sufficiently comprehensive report is an art that should be an attribute of every appraiser. Unfortunately, it is not. Too often appraisal reports are merely a splash of sterile words on paper.

In writing an appraisal report, always remember the reader. While clear-cut thinking is indispensable to good writing, it is of little value to the reader unless the thoughts are clearly expressed. A beautiful sunset cannot be painted with a scrubbing brush; neither can an idea be transferred by the vehicle of poor word arrangement.

This does not mean that the writing should be dressed with rhetorical confectionery, or be pompous or bombastic. Nor does it mean that the fair face of truth should be varnished with that pestilent, cosmetic rhetoric. Far from it. It does mean, however, that the writing should be clear and simple and free of verbal gymnastics. Poor and obscure writing is the refuge of the feeble-minded and of those who cloak the ignorance of charlatans in the trappings of wisdom.

Some men are known by their deeds, but more men are known by their writings. The deeds are soon forgotten, but the writings remain forever.

THOUGHT ARRANGEMENT

It is important to state the purpose of the report. It should be stated at the commencement of the discussion. The reader desires to know what he is reading, so tell him the point quickly. Although he will reach his own conclusion later, the array of data and ideas should be so arranged as to permit the reader to follow the discussion with the least mental effort.

The appraisal report should contain the relevant data arranged in logical sequence. It should contain a recital of the facts and conditions and the line of reasoning pursued in arriving at the appraiser's conclusion. The appraiser should distinguish between what he knows and what he thinks he knows; between fact and fancy; between information obtained first hand and information second hand. In brief, it is a procedure from the known to the unknown.

The appraiser gathers data. He separates the relevant from the irrelevant, verifies the former, and from it draws his conclusions. Like diamonds, facts have many facets; they produce different stimuli upon the minds of different people. This may be illustrated by different mental reactions resulting from the same stimulus.

Viewing a beautiful waterfall, the farmer from an arid region thinks of the crops the water could produce; the engineer thinks in terms of electrical energy that could be developed; while the artist views the sight with thoughts of its fitness as the subject of a beautiful painting.

The arrangement of the data should be such as to lead the reader over the same mental paths traversed by the appraiser. The analysis of the relationships between the relevant data should be expressed in language not susceptible of misinterpretation. Briefly, the successive steps should "track," that is, each should logically follow that which immediately preceded.

The arrangement of data and discussion in an appraisal report should be similar to a description of the route traversed on a motor trip. It should be as simple and lucid as saying, "We left the corner of First and A Streets, drove east on First Street a distance of two blocks to C Street, turned right and drove three blocks along C Street to Fourth Street, which was our destination."

WHAT TO DO

Use the fewest possible words. Write no word except for a definite reason. The best test of the desirability of using a word is — can it be omitted without changing the meaning?

Keep together the words that belong together. For illustration, read the following statements: "Land cannot command, unless there is a demand for it, a price," and "Land cannot command a price unless there is a demand for it." The words "command" and "price" belong together.

Similarly, keep together phrases that belong together. Keep the same subject throughout the sentence; the same topic throughout the paragraph; and the same point of view throughout the report.

Construct short sentences. They help the eye. They are conducive to good reception of the written thought. Usually, fifteen-word sentences more clearly express the thought than those of greater length.

Construct short paragraphs. They help the mind. They are conducive to ease of reading. Usually, two hundred words will constitute the most desirable paragraph length. Employ transition phrases or sentences to maintain the continuity of thought. At the end of a paragraph, or chapter, it is desirable to connect the preceding thought with the one to follow.

In writing numbers, the following rules will be helpful in preserving good form. *In unrelated cases spell out every number of less than three digits:*

> The income for the past two years was inadequate. In 1930 there were forty-four incorporated municipalities in Los Angeles County, one of which had a population of 1,238,048.
>
> The term of the lease was for 120 months.

The exceptions are: *Use figures for dates, dimensions, distances, degrees, and sums of money and to express varying degrees of accuracy.* For example:

10.0	to indicate an exact number.
10	to indicate exactness to the nearest unit.
ten	to indicate an approximation.

Also:

> The building is 20 feet by 40 feet.

Also, *spell out all numbers which begin a sentence:*

> Fifty per cent of the lot was below grade.

In conclusion, after the report has been written, read it aloud for flowing rhythm — for ear interest. When the eye begins to tire, a pleasing rhythm will sustain the ear interest; a jerky rhythm will destroy it.

WHAT TO AVOID

Avoid the use of:

- Technical terms which are not a likely part of the vocabulary of the reader.
- Latin and Greek words.
- Superfluous words.
- Words possessed of a double meaning.
- Words possessed of an indefinite meaning.
- Words which are meaningless.
- Phrases which are meaningless.
- Preposition verbs.
- The indefinite pronoun.
- Other pronouns.
- Split infinitives.
- The subjunctive mood.
- The unnecessary plural.
- Unnecessary ciphers.
- Different forms of verbs.

The primary purpose of writing is to convey ideas from one person to another. The primary task of the writer is to employ those symbols of thought which will accomplish this purpose with the least effort on the part of the reader. The writer should approach the task from the viewpoint of the reader. He should consider the reader's vocabulary rather than flaunt his own.

Not only should the report be written in that language understood by the reader, be it English, French, or otherwise, but it should employ only those parts of that language which will be most conducive to the reception of the thoughts to be conveyed.

Words possessed of a double or indefinite meaning should be avoided. They fail to carry any particular strong meaning and at the same time tend to enfeeble language.

Meaningless phrases should be shunned. The use of the following commonly employed phrases is a wanton waste of words:

Most ideal.
Quite perfect.
Rather unique.

Preposition verbs are enfeebling word devices; while commonly used with satisfactory effect, the fact remains that they do not represent the best form of word arrangement. For illustration, some of the more common forms and preferable substitutes are shown here:

Common Form	*Preferable*
aim at	attempt-endeavor
arrive at	reach-attain
came in	entered
call for	demand
carry out	perform
dealt with	treated
depended on	trusted
done away with	discarded
drawn up	prepared
end up	conclude
fall off	decline
go on	advance
keep up	maintain
look after	watch
work out	devise
make up	compose
prove up	test
put in	insert

Avoid the indefinite pronoun "one." The statement, "One arrives at the conclusion"; or "One infers from the data" indicates either a shrinking from responsibility or mock modesty on the part of the writer, neither of which is desirable in a technical report. Then, too, the indefinite pronoun veils the report with a cloud of impersonality which assuredly should not be present in a report of this kind.

Avoid split infinitives whenever possible. Although there are cases in which the split infinitive may appear to be the better form, or be more conducive to the flowing rhythm of the sentence, more often it is not. A split infinitive is a simple infinitive with a modifier between the "to" and the verb, as "to largely decrease" instead of the proper form, "to decrease largely."

Abstain from the use of pronouns generally. It is preferable to use the word the pronoun represents, rather than the pronoun itself.

In technical reports, the subjunctive mood should be avoided. The subjunctive is that mood of a verb which expresses an act or a state as being contingent and dependent upon something. It is not expressed as a fact. Usually it is introduced by *if, that, though, lest, unless, except, until,* etc.

In technical reports, it is better form to write in the affirmative, thus avoiding the negative or subjunctive.

The avoidance of the unnecessary plural will tend to strengthen the structure of the sentence. In referring to operations of a property, the word "expense" is preferable to "expenses."

The use of unnecessary ciphers in value computations exemplifies the height of folly. Omit the two ciphers on the right side of the decimal point. The processing of pennies indicates an attempt to attain a degree of precision which is utterly impossible in view of the uncertainties of the future income and expense and the arbitrary selection of a capitalization rate.

And, lastly, avoid any change in the form of the verbs. When writing in the active form, do not alternate with the passive; do not change from the imperative to the subjunctive. Keep the thought stream moving in the same channel, either present or past, active or passive, but do not mix them.

⁂

Addendum
The Appraisals of Cemeteries II

Fairmount Cemetery Association, Petitioner, vs. Guy T. Helvering, Commissioner of Internal Revenue, Respondent

On Petition for Review of Decision of the United States Board of Tax Appeals

As we go to press the United States Court of Appeals for the District of Columbia has handed down its decision in the above (No. 6883, decided July 12, 1937).

This decision is particulary interesting and important as it appears to clarify the Court's viewpoint on cemetery valuation for Federal Income Tax purposes. The case involves the valuation of certain *unimproved* areas only of the cemetery, the final valuation of the improved blocks having been accepted by the taxpayer. Upon reconsideration following the earlier case, the Board of Tax Appeals increased the value assigned by the Commissioner and earlier approved of 3.968 cents per square foot (based upon so-called adjoining farm land values) by dividing the area into four parcels and assigning values of 15 cents, 9 cents, 6 cents, and 3.968 cents to the respective parcels. The Court in the present decision again reversed the Board and remanded for reconsideration and revaluation. The Court says in part:

> "The average sales price of the improved blocks in the two years preceding 1913 was 87¢ a square foot, and the Supreme Court in a recent case (Elmhurst Cemetery, etc. vs. Commissioner; see page 109 of the April, 1937, *Journal*) has approved that basis as a reasonable test of fair market value. Petitioner's opinion evidence of fair market value of the unimproved blocks as of 1913, given by competent and expert witnesses, averaged in excess of 75¢ a square foot. The evidence to the contrary related only to valuation of nearby farm lands which, as we said in our former opinion, is wholly without pertinence. The sales price in and prior to 1929 of the 1913 unimproved plots is only 10% less than the sales price of plots or lots in the 1913 improved and partly improved blocks. If we confine the calculation on this basis to the 1913 value of the *partly* improved blocks alone, we should have a 1913 value of the unimproved blocks of approximately 35¢ a square foot. And if we go still further and deduct another 10% as discount for years required to realize the selling price,—a principle which the Supreme Court in the *Elmhurst* case repudiated,—we should still have a valuation of from 25¢ to 30¢ a square foot. For all these reasons we have a situation in which it is apparent the difference in value between 80¢ and 40¢ on the one hand and a valuation of about 9¢ on the other is without proper justification."
>
> "We . . . think that the error the Board has made grows wholly and entirely out of a misunderstanding of our former opinion for which, doubtless, its lack of clarity is responsible. . . ."

Stripped of nonessentials, it seems clear upon the basis of this and the prior decisions that the Court will approve, as a tax base, a valuation based upon the unit selling prices of lots at 1913, irrespective of whether the lands are at the moment improved or unimproved or of their value for other purposes—and presumably provided that the unimproved acreage may be reasonably considered as a part of the entire enterprise.—Ed.

⁂

The Metes and Bounds System of Land Description

By FRANCIS E. JONES

THE Roman Institutional Treatises discuss the natural modes of acquiring property. The wild animal which is snared or killed by the hunter, the soil which is added to our field by the imperceptible deposits of a river, and the tree which strikes its roots into our ground are each said by the Roman lawyers to be acquired by us naturally. Among the natural modes of acquisition was "Occupatio" or occupancy.

EARLY ACQUISITION OF UNCLAIMED PROPERTY

Occupancy is the advisedly taking possession of that which at the moment is the property of no man, with the view of acquiring rights in it for yourself. Among the objects which the Roman lawyers called "res nullius" (things which have not or have never had an owner) are wild animals, fish, jewels disinterred for the first time, and land newly discovered or never before cultivated. Among the things which do not have an owner are movables which have been abandoned, lands which have been deserted, and the property of an enemy. In all of these objects the full rights of dominion were acquired by the occupant who first took possession of them with the intention of keeping them as his own—an intention which, in certain cases, had to be manifested by specific acts. The Roman principles of occupancy and the rules into which the jurisconsults expanded it are the source of all modern international law on the subject of capture in war and of the acquisition of sovereign rights in newly discovered countries. They have also supplied a theory of the origin of property, which is at once the popular theory, and in one form or another is acquiesced in by the great majority of speculative jurists.

The application to the discovery of new countries of the same principles which the Romans had applied to the finding of a jewel raised more disputes than it solved and was elevated into extreme importance by the discoveries of the great navigators of the fifteenth and sixteenth centuries. It resulted in uncertainty as to the extent of the territory which was acquired by the discoverer for his sovereign and the nature of the acts which were necessary to complete the assumption of sovereign possession. The principle was mutinied against by the Dutch, the English, and the Portuguese. The claim of the Spaniards to engross the whole of America south of the Gulf of Mexico nor that of the King of France to monopolize the valleys of the Ohio and the Mississippi was never, in practice, admitted. From the accession of Elizabeth to that of Charles II there was not at any one time thorough peace in the American waters, and the encroachments of the New England Colonists on the territory of the French King continued for about a century longer. Pope Alexander VI divided the undiscovered countries of the world between the Spaniards and the Portuguese by a line drawn one hundred leagues West of the Azores.

ORIGIN OF PRIVATE PROPERTY

Occupancy is pre-eminently interesting because of its importance in speculative jurisprudence in furnishing a supposed explanation of the origin of private property. It was once universally believed that the proceeding implied in occupancy was identical with the process by which the earth and its fruits, which were at first in common, became the alleged property of individuals. Blackstone wrote:

> "The earth and all things therein were the general property of mankind from the immediate gift of the Creator. . . . By the law of nature and reason, he who first began to use it acquired therein a kind of transient property that lasted so long as he was using it, and no longer; or, to speak with greater precision, continued for the same time only that the act of possession lasted. Thus the ground was in common, and no part was the permanent property of any man in particular; yet whoever was in the occupation of any determined spot of it, for rest, for shade, or the like, acquired for the time a sort of ownership, from which it would have been unjust and contrary to the law of nature to have driven him by force, but the instant that he quitted the use or occupation of it, another might seize it without injustice. When mankind increased in number, it became necessary to entertain conceptions of more permanent dominion, and to appropriate to individuals, not only the immediate use, but the very substance of the thing to be used."

The great German jurist, Savigny, speaking of Roman Law, has laid down that all property is founded on adverse possession ripened by prescription.

Sir Henry Sumner Maine takes issue with these theories and considers that it is more than likely that joint ownership, and not separate ownership, is the really archaic institution and that the forms of property which will afford institution will be those which are associated with the rights of families and of groups of kindred. He points out the institutions of India as affording the best opportunity for study of village and community ownership.

EARLY PROPERTY RIGHTS IN AMERICA

The first property rights in this country were acquired by the Colonists by virtue of royal charters, by occupation, or by purchase from the Indians. The lands usually consisted of large tracts, and the title was deemed to vest in the inhabitants, in the commoners, in the original proprietors, and, usually, in theory, in the King of England under whom they held title. The time came when it was deemed advisable to divide the lands among individuals, and many were the disputes in proprietor meetings or in town meetings between proprietors, inhabitants, and commoners in respect to the division. Sometimes the proprietors claimed ownership for themselves alone to the exclusion of the other inhabitants of the community and held proprietor meetings, as distinguished from the town meetings, and made the division among themselves.

Sometimes the distinction between proprietor meetings and town meetings had been lost, and oftentimes the right to a share in the division, in so far as inhabitants who were not proprietors were concerned, rested upon which had a majority — physical or otherwise. Sometimes the division was made by number, each getting an equal share; sometimes it depended upon the amount of taxes which a person paid, the larger taxpayer receiving the larger quantity of land in the division. Sometimes the division was made by the meeting, but frequently by a committee selected to make a survey and to lay out the land. In any event, the lands allotted were usually large farms with a share of pasture land, wood lot, land for cultivation, a house lot, and often an undivided share in the commons.[1]

EVOLUTION OF DEED GIVES RISE TO SYSTEMS OF LAND DESCRIPTION

At just what time conveyances were first used I am not undertaking to determine here. The instrument of conveyance, or the written evidence, eventually became known as the "deed" and as such is the most important document in conveyance of land as carried out in this country today. The transfer of the land by written document, or deed, necessitated some means of describing that which was being transferred.

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[1] See Vol. 4, Johns Hopkins University Studies *Municipal Government and Land Tenure*: Title "The Land System of the New England Colonies" by Melville Egleston. See also Vol. 12, page 353, *Connecticut Magazine;* Title "First Owners of Land in America" by Thomas W. Bicknell.

Zephaniah Swift, writing in Swift's System, which was published in 1795, said:

> "The original mode of conveyance in England was oral, and the evidence consisted in livery of seisin, or corporal investiture of the land in the presence of the freeholders of the county. This was the general method in those rude and ignorant ages, when the people were unacquainted with letters or incapable of writing. But the uncertainty of such conveyances soon led them, when they had acquired sufficient knowledge, to introduce conveyances in writing. . . . "

Referring to the increasing complexities which gradually developed under this method of transfer, Judge Swift went on to say in reference to the changes brought about in bringing this problem to America:

> "In this state (Connecticut), we have reason to revere our ancestors for the liberal spirit that led them to deviate from the laws of the country from which they emigrated and establish a mode of conveyance (bargain and sale) so plain that every proprietor of lands can easily acquire sufficient knowledge to draw instruments to transfer them. In this state the law requiring the recording of deeds superseded the necessity of an actual delivery of possession of the premises . . . but there are still some instances where we see persons go through with the ceremony of delivery of possession by turf and twig, in compliance with the tradition of its necessity. . . .
>
> "There must be a subject matter or something which is contracted for and sold; this must be sufficiently and properly described. Thus, it is essential that the land intended to be conveyed be so located, butted, bounded and described in the deed, so that it can be known where it lies, and be distinguished from any other tract of land; or there must be such reference to some known and certain description as will reduce the matter to a certainty. Thus a reference in one deed, to some other deed or thing, by which the description can be known with certainty, is good and sufficient."

In the October, 1936, issue of *The Journal of the American Institute of Real Estate Appraisers,* Ralph V. Field, M.A.I., writes most interestingly of "The Land Survey Systems of the United States," and among other things he states:

> "The metes and bounds system of survey was used in surveying the land on the Atlantic Seaboard from Maine to Georgia inclusive, also in Kentucky, Tennessee, West Virginia, and Pennsylvania. In Texas, the metes and bounds system of survey, effective before Texas was annexed to the United States, is still in effect in that state. The rectangular system of survey is in effect in the remainder of continental United States, including Alaska. Both systems are in effect in Ohio, while the metes and bounds system is used where needed on account of particular conditions in all parts of the United States."

And, in his preface to a most illuminating discussion of the rectangular system to which his article mainly relates, Mr. Field sagely says:

> "The early settlers on the Atlantic Seaboard 'took up' land by indiscriminate location."

Add this statement of indiscriminate location to Judge Swift's statement that any proprietor can draw a deed, and one might think that the system of metes and bounds description of land is chiefly characterized by lack of system. One might sigh, when considering the mathematical precision aimed at in the rectangular system, until he reads further in Mr. Field's article and discovers that Congress has quite frequently had occasion to amend the laws in regard to the rectangular system, or until he comes upon Mr. Field's question, "What relationship is there between the 'jog' in the township line, as found in the rectangular survey system, and the fact that the world is round?" And, so reading, one familiar with the metes and bounds system might well decide with Shakespeare that it is "better to bear those ills we have than to fly to others that we know not of."

MEANING OF "METES AND BOUNDS"

There is no magic about the meaning of metes and bounds. According to legal decisions, the phrase means the boundary lines or limits of a tract. This boundary line may be pointed out and ascertained by reference to objects, either natural or artificial, which are permanent in character and location and so situated with reference to the tract to be described that they may be conveniently used for the purpose of indicating its extent. By bounds is meant the local, imaginary line by which different parcels of land are divided. By metes, strictly speaking, is meant the exact length of each line and the exact quantity of land in square feet, square rods, or acres. All that is required is that the land be described with such reasonable certainty that there can be no mistake as to its location. Metes result from bounds; where the latter are definitely fixed, there can be no question about the former. When a tract is bounded on lands of other named persons, these lands are the metes and bounds of the tract. Where a lot was in rectangular form, a description in a levy of execution on a certain number of acres off the east end was held to be a sufficient description by metes and bounds (9 Corpus Juris 157).

So—in one aspect of the subject—the metes and bounds system covers the whole field of land description. Here land includes buildings and extends from the middle of the earth upwards to the skies. In this connection we shall observe that where a building is constructed upon or close to the line of an adjoining proprietor or of a street, it behooves the owner to make sure that the walls of the building are plumb lest they trespass upon the property or rights of others. Nor shall we go into the surveyor's problem of making sure that he has the true magnetic north; nor the problem of making sure that the building conforms to the zoning and other municipal or legal requirements. All of these problems and others are involved, of course, in any real estate project.

ACCURATE DESCRIPTIONS IMPORTANT

My own first experience with real estate came many years ago when, as a young lawyer associated with a prominent firm, I was assigned considerable title searching. I have never sympathized with those who consider this work drudgery, for I know of no better training than that involved in connecting every link in a chain of title. In fact, for one who has any imagination at all, just think of the stories gradually unfolded in the records of the past — stories of money and place; romances; skeletons buried in closets; inheritances; lands and water courses; and tales of disappointment, too, for "Tales of many a shattered life, and once golden hopes laid low, would mingle with those of careers more bright, if the waters could speak as they flow." Those old records! — and probate records! I once ran across a will of an old Colonial fellow who left plenty of land and plenty of children, as so many others did. He divided his property among his children with little or no thought as to description — the pasture lot — the wood lot — the homestead — the swamp lot — among all did I say? Among all but one — and as to him the father said, "To Hiram, I leave nothing. To all such virtue is its own reward."

On one occasion the senior member of the firm handed me a typed description of a large tract of land and asked me what I thought of it. I examined it closely. Couched in the most beautiful legal phraseology, it was perfect. The description began at a definite point of beginning in the north line of Main Street at the southwest corner of the land of a designated person and thence it ran along lands of others and along designated lines of streets and hither and yon by designated angles and with courses and distances so artistically expressed that I was duly impressed, particularly so when it concluded with, "The premises are the property conveyed to the Grantor herein by deed of John Doe bearing date, March 1, 1890, and recorded in the Hartford Land Records in Vol. 1, at page 1, to which reference is herein had." After expressing my approval of the description, the senior member taught me a lesson I have not forgotten. He said, "It is no description at all; it doesn't close; draw a picture of it — always draw a picture of a land description. If you do, you will be amazed to learn how frequently that very thing occurs in a description—it doesn't close."

Since that time I have done so, and I confirm the lesson taught me those many years ago. One of the most important, if elementary, essentials of a description is that it close.

It may well have been that the reference to the earlier conveyance — if the description in that were certain — might have saved it, for the cardinal rule in the construction of a grant or description is to ascertain the intention of the grantor; but grantors must remember that in case of ambiguity it is well settled that the construction most favorable to the grantee is to be adopted. But the point, of course, is that the draftsman of a real estate description ought to make sure that no room is left for construction or interpretation because of ambiguity or conflict in the description. Every call ought to be clear and consistent with every other call in the description as well as in the entire document.

But, no matter how carefully one draws his own descriptions, he frequently encounters descriptions drawn by another under circumstances where he is confronted with the practical proposition of what to do about it. It is not always easy to determine the intention of the grantor from the language used in the description. And, in consequence, and because all manner of people have drawn deeds, a considerable body of rules has grown up and has been developed in countless decisions.

RULES AND PRECEDENTS OF THE METES AND BOUNDS SYSTEM

I know of no better discussion of these rules than that found in *9 Corpus Juris 145* under the title of "Boundaries," and, in what is to follow, I have drawn upon it freely and sometimes verbatim.

While no inflexible rule can be laid down with regard to the relative weight to be given to the conflicting elements in a description of boundaries, it may be stated generally that where all the calls of an entry, deed, survey, or grant cannot be complied with because some are vague or repugnant, such vague or repugnant calls may be rejected, if by so doing all the parts of the description will be reconciled and enough left to identify the land conveyed. In all cases, those calls most consistent with the intention of the parties will, if practicable, be adopted. The theory on which one call is given preference over another is that the one which is most material and certain and least liable to mistake should prevail, for the purpose is to find the footsteps of the original surveyor. Generally speaking, course and distance will yield to known visable and definite objects, whether natural or artificial, and will themselves control a call of quality. The rule, however, is by no means absolute. There is no universal rule which requires that one call should be preferred to another, as calls of a higher order may sometimes be made by mistake, and in this event, the calls of a lower order may control as most clearly indicating the intention of the grant.

Where a full and complete description is followed by another description in the same instrument, the first description will control, even though the second is equally full and complete.

Where the lines of a survey have been run and can be found, they constitute the true boundaries which must not be departed from or made to yield to any less certain and definite matter of description or identity. The general rule has no application unless the line run and marked before the execution of the deed, or contemporaneously therewith, were clearly intended by the parties as one of the lines of the land to be conveyed; nor unless the lines were actually marked and surveyed on the ground. A survey not made on the ground is not entitled to consideration in determining the boundaries. Parol evidence is not admissible to show that the boundary line is a line marked on the ground, not mentioned in the deed, and varying from the written course and distance. Nor does the rule apply where no reference is made to the lines of the survey in the deed even if it appears that the survey was made in contemplation of the execution of the deed.

Lines actually surveyed and marked, when found, will control calls for natural or other fixed objects. However, lines actually surveyed and marked do not authorize variation of a call for a straight line between monuments called for and found by proof of a marked line *not called for,* so as to make it an angular or a crooked line. In that case, a straight line from monument to monument conforms to the description in the deed and is sustained by a natural monument.

In case of a discrepancy between lines actually marked or surveyed and those called for in maps, plats, or field notes, those marked or surveyed will control where the lines on the ground are actually located and definitely fixed.

Lines marked on the ground for the survey or adopted by the surveyor are to be regarded, rather than calls for adjoiners, and, when there is a discrepancy, such lines govern. This is an exception to the general rule that the line or corner of another tract of land, which is sufficiently established, will control course and distance.

Lines actually marked and surveyed will control calls for course and distance in the determination and location of a boundary, provided that such marks have been established at or before the time of the grant; and provided that they must either be made for or adopted by the grantor in his deed, or called for in the deed, and be identified on the ground.

A call for quantity, inserted in the instrument by way of description, must yield to lines marked or surveyed and identified.

Calls for natural or permanent objects in an entry, survey, or conveyance will control other and conflicting calls. This general rule has been applied with respect to such objects as streams, rivers, a shore of a lake, other lands, or trees. The rule does not apply where it would make the deed include land not owned by the grantor and omit land owned by him.

Calls for natural or permanent objects will not control those for artificial monuments, marks, or lines, and especially artificial monuments at remote distances, unless it clearly appears that the artificial monument is the more reliable of the two.

A natural monument, fixed, certain, and enduring, will control a reference to maps, plats, or field notes in the same instrument, except where the intention of the parties was obviously otherwise, where the reference was made by mistake, or where a statute provides to the contrary.

In the absence of marked and established boundaries, natural objects, called for as the boundary of a survey, control calls for courses and distances, provided they can be located with reasonable certainty. However, the rule authorizes no other departure from the course and distance than such as is necessary to effectuate the apparent intention of the grantor. The call for a natural object, however, must ordinarily not be a mere incidental call in order to make the rule operative. The rule will not be given effect where to do so would result in absurd consequences; nor where it is obvious that the surveyor made a mistake as to the location of the monument; nor where the manifest intention of the parties would be defeated; nor where the instrument would be defeated; nor where it is obvious that courses and distances furnish the more certain guide to location and quantity of land; nor where no monuments are referred to in the deed.

A statement of the quantity of land in a description must yield to natural or permanent objects called for in the conveyance; it is immaterial that the boundaries so ascertained embrace a much larger area than that called for.

Between several monuments which are incompatible with one another, that which is most certain and about which there is the least likelihood of mistake will prevail. While natural boundaries will control courses and distances and will require a straight line from one corner to another, yet where the grant has other descriptions by natural boundaries, such as to the boundary of an island, which will require a departure from a straight line, such latter boundaries will control.

Monuments described in a deed control other monuments pointed out on actual location if those in the deed cannot be reconciled with those pointed out. Where there are conflicting monuments, one of which corresponds with the courses and distances while the other does not, that which corresponds with courses and distances should be taken and the other rejected.

After natural and permanent objects, artificial monuments and marks — unless clearly erroneous — control other and inconsistent calls for boundaries, provided the monuments are mentioned in the deed. There is a conflict of authority in the decisions as to whether artificial monuments and marks or maps, plats, or field notes shall control where there are discrepancies. In case of conflict, calls for adjoiners will, as a rule, yield to calls for artificial monuments and marks.

Artificial monuments and marks will generally control conflicting calls for courses and distances, but to render the rule operative, it is essential that the existence of the monuments be proved and that they be definitely and clearly identified. A mere office call for a monument not placed in its position by the surveyor will not take precedence over courses and distances. The rule applies only to such monuments as are mentioned in the conveyance. Generally speaking, the rule applies only where the call for the artificial object is locative and not merely descriptive or incidental.

Artificial monuments or marks prevail, in case of conflict, over a call for quantity in the same instrument.

Where maps, plats, or field notes are referred to in descriptions of land, they stand on the same footing as monuments. There is a conflict of authority in the decisions as to which shall prevail in event of inconsistency between the plat and the field notes. In case of conflict between a call for adjoiners and a map or plan referred to in the description, the map or plan will ordinarily govern.

Maps, plats, or field notes may control a description by metes and bounds — as, for example, a designation of a lot by number on a map — but that call will be adopted which has the greater certainty and is more in accord with the supposed intent of the parties.

Maps, plats, or field notes will generally prevail over a call for courses and distances in the same instrument where there is a conflict or discrepancy between them; also, maps, plats, or field notes will generally prevail over a call for quantity where there is a conflict or discrepancy between them.

In the absence of calls for other monuments, calls for adjoiners will, as a rule, control other and conflicting calls. In order that calls for adjoiners may have controlling effect, the adjoining tract of land, as a monument, must be established and well known and must be called for in the conveyance; and where such calls are manifestly erroneous, they will be disregarded.

As a general rule, calls for adjoiners control calls for courses and distances, but, in order to have this effect, the lines called for must have been in existence at the time of the conveyance, and they must be clearly established and identified. Unless lines and corners of an adjacent tract are called for in the conveyance, as boundaries, they are not of controlling effect. So, although a reference is made to adjoiners in the description, the context must make it clear that such reference was to make the adjoiners boundaries of the land conveyed. The call must be a locative and not merely an incidental one; but calls for adjoiners yield to courses and distances where the former are clearly incorrect or are so vague and uncertain as to be incapable of definite ascertainment, or where the operation of the general rule would defeat the plain intent of the grantor.

The general rule is that calls for quantity yield to more certain lines of the adjoining owners which are, or can be, made certain.

Where land is described by clear and distinct metes and bounds, from which the boundaries can readily be ascertained, such description will control any general word of description added thereto. A general description may be looked to in aid of a particular description that is defective or doubtful but not to control or override a particular description about which there can be no doubt.

Metes and bounds in the description of property granted, if established, always control courses and distances.

A recital of quantity in a description of lands must yield to metes and bounds, unless an intention is clearly shown that the call for quantity is to control the boundaries given. Of all the indicia by which the boundaries of land are to be ascertained, that of quantity is held perhaps the least reliable.

The general rule is that where a departure from either course or distance becomes necessary, the distance must yield. But the true rule is to enforce the manifest intention of the parties under the circumstances of the case. Accordingly, distance will control where such is the manifest intention; where the facts clearly show where the distance is described with certainty and the course is not; in the absence of other controlling circumstances; or where it is manifest from the patent as run out that proximate certainty may be accomplished by changing the course instead of the distance.

The statement, in a conveyance, of the amount of land to be conveyed is not a factor in establishing boundaries, unless the more particular description expressed is indefinite and uncertain. However, where other calls which would ordinarily control call for quantity are not set forth in the conveyance, or, although given, leave the boundaries doubtful, the quantity of land becomes a material consideration in fixing the limits and may have controlling effect in determining the boundary. Also, where the quantity of the land conveyed is of the essence of the contract, it will control, although the calls of the deed may not include the whole tract. So, quantity will control where there is a clear intention expressed in the deed to convey a certain quantity only or where there is an expressed or implied covenant in a deed to convey a definite quantity.

Where there is a clash of boundaries in two deeds from the same grantor, the title of the grantee in the deed first executed is, to the extent of the conflict, superior, and the rule applies as well to grants by the state as to conveyances by an individual. But when the elder grantee's deed and plat are obscure, the doctrine will not be strained in favor of the elder grantee. Where two tracts of land are simultaneously conveyed by the grantor to different persons, if there is an overlapping in the descriptions, the grant of the grantee whose survey was prior controls.

Where survey lines conflict, the lines of the elder survey will prevail over those of the junior, and this is particularly so where the junior is bounded with express reference to the elder; but a call for the well-established corner of an elder survey is of equal dignity with a call for the established line of another survey, and in a case where the plaintiff shows no ground for a recovery except a conflict in the two calls, he is not entitled to recover. In other words, the plaintiff loses. Where the two surveys are contemporaneous, neither can claim any advantage over the other from mere priority in the date of the final title.

The fact that two surveys call for each other for a common boundary line is not so controlling as to justify the establishment of a common line where the lines of each survey are actually marked on the ground and, as marked, leave an area of ground between the surveys.

It is the established rule that a conveyance of land bounded on a street or highway carries with it the fee to the center thereof, subject to the easement of public way, provided that the grantor, at the time, owned to the center and there are no words of specific description to show a contrary intent. The way as opened and actually used, rather than as platted, is considered to be the boundary intended by the parties in the absence of any evidence to show a contrary intention. The presumption of an intent to convey title to the center of a street or highway is not overcome by the fact that the land conveyed is described by metes and bounds and that the distances stated in the description of the deed do not extend to the center of the street or highway. There is a conflict of authority in respect to calls for side line of a street, highway, or alley in a description. The expressions "by the side of," "by the margin of," "by the line of," or like terms are usually considered as calls for side lines. The conflict of authority involved is as to whether, in such instances, the grantee's title extends to the center or only to the side line; and the fact that the street has been discontinued seems to be immaterial.

A boundary on a way, public or private, includes the soil to the center of the way, if owned by the grantor; the way thus referred to and understood is a monument which controls courses and distances, unless the deed by explicit statement or necessary implication requires a different construction.

Where land is dedicated to the public for a purpose of a highway or street, a vendee of land abutting thereon does not take title in fee to the center of the street unless the dedication has been accepted by the public.

Under some decisions the beginning corner, when established, is held to be of controlling authority, but under other decisions, when the succeeding calls are as readily ascertained and are as little liable to mistake, they are of equal dignity with, and may control, the call of the point of beginning. Under such decisions, where a disputed or lost line or corner can thereby be established more nearly in conformity with the terms of the instrument and with the intent of the parties as gathered from the instrument, it is competent to ascertain such line or corner by first ascertaining the position of some other bound and tracing the line back from that by reversing the course and distance.

A specific and definite call for an angle must generally be observed, but where the call is general and merely descriptive, the line may be deflected from the angle called for, if thereby the intention shown in the language of the instrument, in the light of the situation of the land and the circumstances of the case, will be best subserved.

Intention, whether expressed or shown by surrounding circumstances, is all controlling; that which is most certain and definite will prevail over the less certain and indefinite. Ambiguous or patently erroneous descriptions may be rejected, and the land may be located by other calls. Any call may be disregarded to ascertain the footsteps of the surveyor in establishing the boundary of the tract intended marked out on the land. A boundary may be rejected when it is manifest from all the circumstances that it was inadvertently inserted. But — and here is the real lesson for all of us — where the calls of a description are definite and clearly expressed, they should not be extended to conform to an intent which might be discovered from other parts of it or from extrinsic evidence, the chief purpose being to develop the true intent.

METES AND BOUNDS SYSTEM IS HERE TO STAY

From all this — and from much more which might be said by anyone familiar with real estate — it should be apparent, I think, that no one should attempt to draw a description of real property without adequate training.

From the beginning, land has been the

most important factor in sustaining the people in this country, as in every other country. What the future may hold in store, only a kindly Providence knows. Only a short time ago I heard a farmer make a plea for a lower tax rate on his land used exclusively in farming, and, in the course of his argument, he stated that his land was of practically no value except as earth to help hold the rest of the town together. Perhaps he stated a fundamental truth, and perhaps it is that the land — with a little confidence sprinkled in — will yet hold the United States together. And so long as individuals, as such, own the various and multitudinous pieces of land which together comprise the soil of this Republic, just so long will the metes and bounds system of land description be of vital significance to the well-being of this country and its people.

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Accounting for Buildings in Farm Property Valuation

By W. E. Hobbs

IN appraising a city property, the annual revenue deemed likely to accrue to the benefit of the owner is used as one means of approach to the value of the property. The method consists of estimating the gross revenue to be derived from rents, etc. and offsetting against this the expenditures and allowances for which the owner is liable, such as taxes, repairs, vacancies, insurance, building replacement reserve, etc. The resultant net income capitalized is the apparent value of the property. The result obtained in this manner will not be the final and conclusive actual value of the property, for other value factors have to be considered and given due weight in the appraisal. However, this method is a very important and illuminating avenue of approach to value.

LAND AND BUILDINGS ARE A PRODUCTION UNIT

In more recent years appraisers of farm properties have been using the revenue approach in their work. Even though the cases of city and farm properties are not identical, they are analogous and sufficiently similar for each to contribute something to the theory and methods in the appraisal of the other.

It is perhaps true that in the past the character and value of the land received much more intelligent consideration than the buildings in the appraisal of farm properties. In many cases the buildings were given a purely physical value regardless of the amount they added to the value of the property. More recently—and the idea is becoming more widely accepted every day—the farm is being looked upon as a productive unit similar to a manufacturing plant. This view involves regarding the farm property as a whole, not only the land which produces the crops or pastures the herds but also the buildings which provide facilities and needs in operating the farm; it likewise includes the home or living quarters of those engaged in the operation. One main difference between the farm and the manufacturing plant is that the farm is also the home of the farmer; its attractiveness as a home has a bearing on its value.

It may be accepted, then, that buildings are an integral part of any farm and that their value is measured by the way in which they fill the farm operating requirements; their accommodation and arrangement, their location on the farm, the type of construction used in building them, their age, etc. all contribute to the farm as a production unit. It is assumed that the production of the farm is directly affected by the adequacy or inadequacy of the buildings. Most certainly the work entailed in operating the farm is greatly facilitated by well-located, adequate buildings of the right type.

With so many factors to consider and evaluate, farm property appraising is an involved process and requires a large measure of skill and experience to produce satisfactory results.

ADEQUACY OF BUILDINGS

In this discussion, our particular concern is with farm buildings and how to account for them when employing the revenue approach to value. We shall not be concerned with the general problem of appraising farm properties, or even with the specific details of farm building requirements. It will be sufficient for present purposes to recognize that the adequacy or inadequacy of farm buildings is largely a matter of accommodation; and, as everyone knows, any required amount of building accommodation can be supplied in a great variety of forms, in many different types of construction, and at widely varying costs. Custom may demand certain styles of buildings in certain localities; this is a factor that must receive consideration by the appraiser in every given case. The whims and preferences of people or communities have to be taken into account. Furthermore, there are stages in the development of communities which have a marked effect upon the types of buildings found on farms.

In the pioneer stage, sod houses on the prairies and log houses on bush lands were the usual thing. Later, as better roads and other public works began to appear, and larger areas were under cultivation or in other farming uses, indicating an increase in farmers' revenues, better living accommodations on farms, as well as improved buildings for stock and machinery, superseded the original, primitive quarters. Finally, after a generation or so, where the locality was a good one for farming, comprehensive and adequate sets of buildings of a more substantial character appeared.

Another point should be noted in connection with this period of transition. In the earlier stages of settlement, the character of building seldom kept pace with development. It should be recognized that, given the same production and prices, farm land is worth more from the revenue point of view when the building accommodations are simpler and the carrying charges are less than when more costly buildings are erected to perform the same functions. This fact, however, has not deterred farmers from providing themselves, their families, and their hired help with greater comfort and convenience than a bare minimum of buildings would afford. Up to a certain point, better buildings do promote greater production, but the law of diminishing returns operates just as effectively in the case of farms as in other properties.

It is admitted that these factors do not always appear in the revenue approach to the value of farm property; however, this should not be taken to imply that they are of little or no importance or that they may be ignored. Any factor not reflected in the value derived through the revenue approach must be considered and included elsewhere in the appraisal if it has a bearing on the case. The revenue approach is only one of several. Any value arrived at through it requires adjustment and modification according to the presence and value of all other relevant factors.

APPRAISING A FARM WITH BUILDINGS

Let us consider the case of a fully developed section of land, containing 640 acres (Section 8, in Figure 1), which is farmed as a unit.

It is good land in a well-established farming community. To make the problem as simple as possible, we shall assume that all of the land is grain land and under cultivation; that all of the quarter sections are of equal value in production; and that lands adjoining this section are of similar character. Buildings are located on the north half of the section and are adequate but do not exceed all requirements for farming this section properly. They are practically new and are typical of those found in the community.

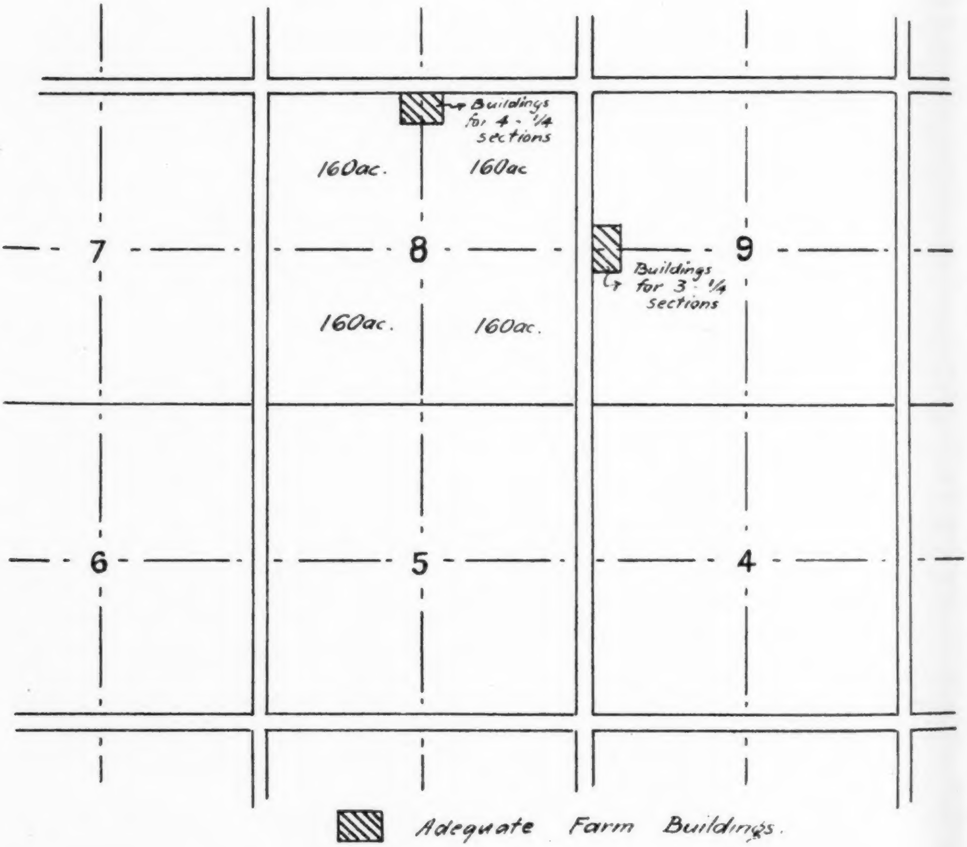
Let us assume further that the present physical value of these buildings (the method discussed would apply just as well to other improvements) at the time of appraisal is $6,400, which, since we assumed them to be practically new, means that this sum may be taken to represent their present replacement cost. For the farm unit, this amounts to an average of $10 per acre for buildings.

In the following discussion, the methods and terms conform to those employed by the Appraisal Committee of the National Joint Committee on Rural Credits in its "Standards of Practice for Rural Appraisers."

Let us assume also that after preparing an income and expense statement for the farm property and arriving at the owner's net income, it is found by the capitalization process to have a value of $35 per acre; that is to say, the value in use of this property (both land and buildings together), as measured by its productive capacity, is $35 per acre.

To complete the appraisal, two things or groups of things require consideration and evaluation: (a) adjustments for "Location" and "Home Uses," with all that is implied by these terms; and (b) the buildings' situation. Though we are not concerned with (a) in this discussion, it may be well to observe that certain building aspects may have to be covered by "adjustments" under these headings; (b), however, is vital to our enquiry.

FIGURE I


Buildings for 4 - 1/4 sections
160ac.
160ac
7
8
9
Buildings for 3 - 1/4 sections
160ac.
160ac.
6
5
4
Adequate Farm Buildings.

NOTE: In Western Canada, sections are numbered in the reverse order East and West to that employed in U. S. A.

BUILDING CHARGES IN THE INCOME AND EXPENSE STATEMENT

Building charges appear on the expense side of the statement. In general, the total charges associated with buildings include items for insurance, the maintenance of buildings, and an annuity to cover the replacement of buildings when worn out. When buildings are new they have a higher insurable value than when they are old. The amount to be entered for the insurance item is the average annual premium which will have to be paid during the life of the buildings. The maintenance charge is the appraiser's estimate of the average annual amount which will have to be spent to maintain buildings in a usable condition throughout their life. The replacement annuity is the amount which must be set aside annually throughout the life of the buildings and which at, say, four per cent interest will furnish the money required for rebuilding when the old buildings have to be abandoned.

It will be observed that this set-up constitutes a perpetual, annual average charge on account of buildings, which, joined to the owner's other charges (such as taxes, management, etc.) and deducted from the owner's revenue from operation (another long term average), furnishes the owner's annual net income from the property in perpetuity as nearly as it may be determined. A perpetual revenue is the basis upon which capitalization can determine value. If revenues are to accrue for a period only, the method in valuing should be to calculate the present worth of such limited future revenues, recognizing, of course, any values that remain at the end of the period.

It seems obvious, too, that this average annual building charge set up in the statement can represent the situation only when the buildings are new. The insurance and maintenance charges represent averages throughout the life of buildings, and, though one or the other might coincide with the actual charge in some year, they are attained by viewing conditions at the beginning and throughout the life of the buildings. Barring fluctuations in the costs of construction, the replacement annuity as set up can be covered only when the buildings are new. Suppose a farm property is acquired when one-half of the life of the buildings is spent; the new owner would have to set aside a replacement annuity of about three times the amount of that required when the buildings were new, and he cannot revert to the smaller (the full life) annuity until the existing buildings are abandoned and new ones take their place. All of these items, therefore, point to the fact that the income and expense statement represents the situation when the farm buildings are new. In practice, actual expenditures are made as required, and the amount to cover the replacement annuity is seldom set aside annually in reserve, so that these items must be viewed as a means of accounting for buildings in the appraisal and nothing more.

Now, excluding other variables, it is obvious that farm production does not vary with the age of farm buildings, provided they are maintained in a usable condition. Considering the effect of buildings alone, production may be expected to be the same when the buildings are new as when they are, say, thirty years old. However, the value of the farm property is not the same at the two stages. The owner, prospective purchaser, or anyone else cannot fail to recognize that in one case the buildings are new and that a long time will elapse before replacement will be necessary, while in the other case the buildings are thirty years old and it will not be long before money will have to be found to rebuild them.

CORRECTION FOR STATE OF BUILDINGS

We, therefore, arrive at this conclusion: the property value derived by capitalizing the owner's net income indicates a condition where buildings are new and that the actual depreciation in the buildings, due to their age, condition, etc. must be deducted from the property value so derived. For this purpose, depreciation may be defined as the difference between the present replacement value and the present value of the buildings. The manner of inserting this depreciation in the appraisal is left to the appraiser. It might well be shown as a deduction after capitalization.

In the example we took, the buildings were said to be practically new, so the $35 per acre, derived by capitalizing the owner's net income represents the value of the property, both land and buildings.

To vary the conditions, however, let us suppose that the buildings had been erected for several years and that their depreciation as estimated by the appraiser amounted to fifty per cent; then a corresponding deduction from the derived value of $35 per acre would have to be made. In our case, the present replacement value of the buildings was assumed to be $6,400, which amounts to $10 per acre for the whole of Section 8. Fifty per cent of this is $5.00 per acre. This $5.00 depreciation should be deducted from the $35 per acre derived through the income and expense statement, which makes the value of the property $30 per acre, from the accounting point of view.

FARM PROPERTIES WITHOUT BUILDINGS

Let us refer once more to our example, Section 8. So long as this Section is maintained and worked as a farm unit, it would be correct to state that the property, as a whole, has a value of $35 per acre (disregarding the small area occupied by buildings) or that any part of it (as it has uniform characteristics throughout) has the same unit value; that is to say, if the whole of Section 8 is a farm unit, the N. ½ of Section 8, with the buildings erected on it, has no greater unit value than the S.E. ¼ of Section 8, which has none. It is not a matter of where the buildings are located but whether the land is served with necessary building accommodations and the condition of the buildings.

But suppose the owner of Section 8 decides to cut down the size of his farm by selling the S.E. ¼ of Section 8. What is the value of this quarter section then?

If we prepare an income and expense statement for the S.E. ¼ of Section 8, obviously it would be wrong to exclude all building charges from the expense items, as this would result in increasing the owner's net income by the amount of these charges, and the resulting capitalized value would be higher for land without buildings than with them.

RENT VERSUS CHARGES BASED UPON BUILDING VALUES

Some advocate the inclusion, on the expense side of the income and expense statement, of an item representing the rent of buildings necessary for farming the property being appraised. This might be satisfactory if the rent item truly reflected the value of the buildings used with the land, but, if the appraiser checks this, and he should, he might better include the usual building charges which are definitely associated with the value of the buildings.

We say the appraiser should check the rent of farm buildings with their value, because quite often rents are actually low, if not at sacrifice levels, due to the fact that the owner is at the mercy of one or two farmers on near-by lands who might be induced to use the buildings. If the buildings really were needed to round out a farm, they could probably be sold at a fair figure. In other words, they would then form the basis of a strictly business deal on fair terms; otherwise, the sale prices or rents of farm buildings, in the category referred to, may be expected *not* to conform to value. When farm houses and buildings are constructed as an investment, with the object of leasing them to farmers, rents may be expected to conform more closely to values.

Again: If the rent of farm buildings

does conform to their value in any given case, unless the buildings are new, this rent cannot be entered in the statement without adjustment, because where buildings are *not on* the land being appraised, a deduction amounting to the present replacement value of buildings actually serving the land has to be made, that is to say, the value of such buildings new. To enter rents based upon other than new buildings would be misleading unless an adjustment were made. The appraiser should endeavor to determine the value of buildings actually associated with the land in the farm production indicated in the income and expense statement.

Returning to the appraisal of the S. E. ¼ of Section 8 as a unit without buildings on it, we have assumed that agricultural land can neither attain nor maintain its best production without the use of adequate building accommodations. In this case there are no buildings on the quarter section, and we do not know how nor whence its building needs will be provided, though we recognize they will have to be met if its value in use is to be realized. If we assume further that at least three quarter sections of this kind of land are required to form a farm unit in this community, then this quarter section will have to be combined with other land to realize its value. When joined to the rest of the Section to form a farm unit, we found the unit value of the S.E. ¼ of Section 8 to be $35 per acre, including $10 per acre, the value-in-use of practically new buildings situated elsewhere on the farm but adequately serving its needs. It follows then that the value of this quarter section alone, when separated from the farm of which it was originally a part, now having no buildings on nor serving it, is $35 less $10 — namely, $25 per acre. Obviously, buildings to adequately serve the land will have to be joined to it if this value is to be maintained.

In the case just cited, the appraisal problem was simplified by reason of the S.E. ¼ of Section 8 having been valued previously as a part of the fully equipped and developed farm unit — the whole of Section 8 — and thereafter separately as a unit. By reason of this, the value of building accommodation actually associated with the production from the S.E. ¼ of Section 8 was known.

Any other case of farm land without buildings erected thereon should be approached in the same way. The value of buildings, or the portion of them, serving the land being appraised and combining with it to form a productive farm property should be utilized in any appraisal based upon an income and expense statement to determine the value of the land without building accommodation, as in the manner already described. The *present replacement cost* of such buildings is the amount to be deducted from the capitalized value so derived.

If buildings formerly associated with the land in production have been destroyed or, due to the cutting up of a farm estate, no longer indicate value in association with the land in question or for any other reason cannot or should not be associated with the land in the appraisal, an estimate of the value of new and adequate buildings, conforming as nearly as may be to the requirements in operation of the land involved, should be substituted therefor in the appraisal, the procedure otherwise being the same as already described. Buildings typical of those found on similar lands in the same community will probably form the fairest basis for this estimate.

THE DEMAND FOR LAND WITHOUT BUILDINGS

There is a danger here of trying to impress irrelevant considerations into the process of arriving at value through the revenue approach. These considerations may be real enough but have no part in this approach — there is no place for such considerations.

For instance, the situation might be such that the owner of the S.E. ¼ of Section 8 is willing but is in no particular hurry to sell but that one or two near-by farmers are most anxious to buy as they are in urgent need of a quarter section to round out their farm units. No one doubts that under such circumstances the owner may receive a relatively high price for his land. The actual price level will be determined by salesmanship, the urgency of the situation, and the competition for ownership between near-by farmers, as well as the inherent characteristics of the property. This aspect is largely a matter of supply and demand, which must be reflected in the appraisal, but which has nothing to do with the value derived through the revenue approach. The latter depends solely upon the productive capacity of the property which implies consideration of the buildings, situation, for reasons already stated. This approach is concerned with value from the revenue point of view only.

The S.E. ¼ of Section 8 might appeal to purchasers for several reasons. For instance, the N. ½ of Section 5, also without buildings, might be available for purchase, and some farmer might acquire the three quarter sections, thus making a unit farm upon which necessary buildings would have to be erected. In such a case, it is quite clear, in view of the criteria previously developed in this article, that the value of this quarter section, through the revenue approach, is $25 per acre. We might observe further that the purchaser will have to expend capital to furnish necessary buildings if the land is to continue as productive as formerly and if the value-in-use of the property ($35 per acre) is to be realized.

As another example, we might visualize a farmer owning the adjoining W. ½ of Section 9, which we shall assume has adequate building accommodations located thereon for a three quarter section farm, this being the size of the typical farm unit in the community. Let us suppose that until recently he leased the S.E. ¼ of Section 9, thus making up his three quarter section unit, but that his lease having been cancelled, he is now anxious to acquire another quarter section. The S.E. ¼ of Section 8 would suit his requirements particularly well, so much so that he may be ready to pay a premium over and above its value-in-use. We may recognize that this farmer has the necessary building accommodations available and lying idle, and if he acquires this quarter section, it will result in an ideal combination, whereby both land and buildings will realize their full value-in-use. That the farmer already has this building accommodation does not alter the fact that its construction involved expenditure at some time, that it has potential value now, and that it can develop only that value when put to use. Due to his peculiar circumstances, the farmer may be prepared to pay more than value for the additional land he needs. This, however, is another matter and beyond the scope of this enquiry. In this case as before, the unit value-in-use of the S.E. ¼ of Section 8, without buildings, remains at $25 per acre until it is made a part of a new farm unit with the W. ½ of Section 9, which has adequate building accommodations for the three quarter sections, when it develops a unit value of $35 per acre, less any depreciation equivalent which the state of the buildings on the W. ½ of Section 9 may require.

OTHER INFERENCES

The effect upon the remaining three quarter sections of Section 8 is that their unit value derived through the revenue approach stands at no more than $35 per acre and perhaps less. The surplus building accommodation, formerly required when the S.E. ¼ of Section 8 was a part of the farm but no longer needed for the remaining three quarter sections, will still involve expenditures for insurance, maintenance, etc. Theoretically, the owner of Section 8 is the loser of at least $10 per acre in value for the quarter section sold, because all of the building accommodation remains with him. Though he has surplus accommodations, formerly required for the S.E. ¼, he has no means of disposing of them with the land in that quarter section.

In the splitting up of a farm estate, many combinations of the two or three cases referred to above may be encountered. The values of the separate parcels depend entirely upon how the estate is divided; how the smaller units resulting are served with existing buildings; the condition of the buildings; and whether the units are of suitable size for proper farming practices.

In an actual instance a large farm, some two or three thousand acres in extent, with elaborate buildings centrally located — really more than adequate for the normal requirements of the farm — was put on the market. Careful enquiry elicited the fact that the chances of selling this farm as a unit were so remote as to put that probability out of the question. The splitting up of the farm into smaller units meant that practically all of the fine farm buildings had a salvage value only. Almost without exception, the smaller farm units, into which the farm had to be divided in order that sales might be made, had a value in land only. Buildings necessary for operation and production had to be financed and erected on practically every one of the smaller units.

CONCLUSION

A summarization of the methods described as applied to the revenue approach in the ordinary cases that may be encountered follows:

A. *If there are buildings on the farm:*

- (1) If the buildings are new:
  - (a) Determine the value of the farm property (land and building) through the income and expense statement by capitalizing the owner's annual net income. This is the value of the property.
- (2) If the buildings are not new:
  - (a) Proceed as in (1a).
  - (b) Determine the amount of depreciation in buildings.
  - (c) Deduct (2b) from (2a); the result will be the value of the property.

B. *If there are no buildings on the farm, but buildings serving it can be appraised:*

- (1) Proceed as in (1a), substituting expense items for buildings, or portions thereof, serving the farm instead of items for buildings on the farm.
- (2) Determine the present replacement cost of buildings serving the farm.
- (3) Deduct (B2) from (B1) and so arrive at the value of the farm (land only).

C. *If there are no buildings on the farm, and those previously serving it no longer exist or for any reason cannot or should not be used in the appraisal:*

- (1) Proceed as in (1a) and (B2), substituting expense items for adequate buildings typical for the community, instead of items for buildings on the farm, but modifying these if the farm production does not indicate association with typical adequate buildings.
- (2) Deduct the present replacement cost of buildings from (C1) and so arrive at the value of the farm (land only).

Buildings are assumed to be a necessary adjunct of land in farm production.

As far as possible, the attempt should be to represent in the appraisal the value of the buildings actually associated with the land in the farm production reflected in the income and expense statement.

In general, adequate or inadequate buildings are accounted for in the income and expense statement (including the replacement annuity) just as they occur.

Some Problems Confronting Appraisers in Condemnation Cases

By BURTON THOMPSON, M. A. I.

OUR Federal and State Governments are entering upon an era of vast construction and reconstruction involving highways, railways, public utilities, buildings, and waterways. Never before in the history of this or any other country was there proposed such an orgy of spending, both for improvements and for new projects.

In the legal and orderly procedure necessary to carry out these programs, many cases will arise where properties must be acquired by exercise of the right of eminent domain. In such procedures, the rights of owners with regard to damages suffered by expropriation must be established by experts qualified to testify on real estate values. Every qualified appraiser will readily recognize the unusual opportunity this offers those who specialize in condemnation appraising.

In the study of the problems involved in condemnation cases, it will be discovered that there are many factors beside and apart from those to be found in an ordinary appraisal.

In the days of the Ancient Mariner, ships were steered "by God or by guess." Not until the discovery of the magnetic needle and the invention of the compass did navigation become the science it is today on land, in the water, and in the air.

The day when the appraiser steered "by God or by guess" is gone — he has had to learn to box his compass. He must now apply a technique and make use of methods that will be recognized by the courts and by the public.

In appraising for condemnation purposes, whenever only a part of a property is to be acquired, elements of damage appear which must be weighed, as well as the actual value of the portion taken. In such cases an appraiser must find the damages by considering three distinct elements. First of these is the value of the property taken as an integral part of the whole; the second is consequential damage which may or may not occur; and the third is damage to the remaining property. The latter element is not apparent in every case, but it must be considered wherever there is a severance of property. Compensation is due an owner not only for the property taken and for "severance damage" — the lowering of value of the remainder by reason of the taking—but he must likewise be compensated for damages to the remainder of the property by virtue of the use to which the part taken is to be put. This latter is called "consequential damage."

Naturally and obviously, the first step in such an appraisal is to value the property as a whole, setting up separately the sound value of the land and the improvements (if any) thereon.

Before the taking, the land is to be valued upon the basis of its permitted use, utility, size, and other characteristics. This may result in using an acreage, a front foot, or a square foot unit. If it be an improved, non-investment property, and if the buildings appear to represent the highest and best use of the property, the improvements should be valued upon the basis of reproduction cost, less depreciation and obsolesence. In the case of income-producing property, the capitalization method should be used with either the land or the improvements as residual or the property residual, depending upon the degree of suitability to the site. Of course, modified methods are to be used if the case involves service properties, such as churches, schools, clubs, etc.; to this point the recognized technique of appraisal procedure is employed.

The second consideration is the value of the remainder after the taking. In evaluating the remainder, consideration must be given to whatever damage it may have suffered by reason of the severance. Severance damage occurs to the *land* when the remaining portion has a lowered utility, an impaired form, or a lessening of expansion possibilities. Severance affects the *improvements* when it reduces their actual or potential ability or results in a limitation of possibile additions thereto; diminishes their accessibility; and/or reduces the land areas below a normal possibility of use for such purposes as are permitted by the zoning of the subject property.

After the taking, if the remaining parcel (the land) has suffered damage by virtue of reduction of area, detrimental change of geometric form, or availability or accessibility, such damage is to be reflected in the lower unit value used by an appraiser. Appraisers have no formula for arriving at such a reduced value. The problem is one purely of judgment. In the matter of severance damage which affects the improvements, reliance must again be had on judgment, but here (particularly in the case of an industrial property) the real estate appraiser would do well to employ reliable industrial engineers to estimate the damages, if any, to the existing buildings and accessory developments. The total of these two valuations deducted from the value of the whole property before the taking represents the total of the damages due to the taking. To this total must be added the consequential damage if any such damage is apparent.

Consequential damage results from the use to which the part taken is to be put. "Since it occurs after, and only upon the completion of the improvement, it is a separate damage from the damage of the part taken, and as such must be fixed and determined separately." (Hanson) Such a damage may result from any one of a number of causes or a combination of several, for instance, the raising or lowering of surface grades; required changes in drainage of the remainder; obstruction of light; creation of fire hazards; impairment of visibility; creation of offensive odors, noises, or smoke; or increased operating cost in normal use of the remainder property.

This third and final element of damage can be fairly predetermined only where plans for the use of the property taken have been revealed. Their consideration, however, is essential to a full and complete report upon the damages to be sustained by the owner of the property. Again let it be said that in all of our appraisal technique there is no rule nor formula for estimating consequential damages. Their evaluation may be the province of an engineer, an architect, a real estate expert, or of all three in consultation. The problem here is purely one of practicability. The appraiser must submit the case to the arbitrament of reason. He must be "guided by his conscience and his God."

The legal problems in a condemnation case are, as a matter of course, the concern of an attorney or counsellor at law. Nevertheless, the appraiser must have at least a general knowledge of the legal points involved in order that he may comprehend the issues at stake and prepare his appraisal data in a manner that will support his conclusions. This does not mean that he is to be guided or influenced by the trial attorney as to his findings in relation to values and/or damages. Neither is it intimated that he is to attempt to construe the law. The argument here advanced is that, having a full knowledge of the legal points which his attorney intends to prove, the appraiser can prepare his own case so as to eliminate irrelevancies and to include all the supporting data necessary for proof of his findings.

Too often appraisers are hailed into court without a proper knowledge of "what it is all about." Before undertaking a condemnation appraisal, the expert should be made familiar with the line of contention to be pursued by the attorney. If the attorney indicates that he entertains and will press concepts of damage elements which do not square with the appraiser's judgment, then the appraiser had best bow out of the case at once. The appraiser is engaged to estimate damages, if any, and to evaluate them in terms of dollars. The province of the attorney is to point out what is, or is not, admissible evidence, and so far as the appraiser is concerned, it stops right there.

We repeat that an appraiser should never undertake his work until he has first gone thoroughly into the theory of the case with the trial attorney for whom he is to appear and give testimony. This is a condition precedent to his intelligently handling the very fundamentals of the appraisal upon which his expert testimony must rest.

If the vagaries of the decisions of the courts in the matter of permissible evidence — value, market value, or use value, construction of statutes, and other salient legal points — are still being disputed by the judiciaries to the confoundment of the attorneys, it is no wonder that appraisers are often confused in their efforts to adopt a sound technique in such cases.

In the concluding pages of Mr. Orgel's volume, *Valuation under the Law of Eminent Domain,* (page 825) under the discussion of "Abuses Arising in Connection with Condemnation Proceedings," is to be found the following comment made by this eminent attorney:

> "In this country, perhaps the most flagrant abuses of condemnation are associated with the sinister influence of corrupt municipal politics. For, on account of the uncertainties and the weaknesses of valuation methods, condemnation proceedings are peculiarly susceptible to attack by political interests. In private litigations, the issues are warmly contested and the judgment closely scrutinized on both sides. But under a system of municipal politics that regards the public service as a means of private enrichment, condemnation proceedings can easily be converted into sham battles, staged by the political powers in control of the municipal administration.
>
> "These abuses have been fostered in the dark corner of the law to which condemnation proceedings have been relegated. The law of eminent domain falls outside the scope of most law school curricula. This coupled with the fact that condemnation proceedings are technical statutory proceedings explains why most lawyers are ignorant both of the procedure and the substantive law of condemnation. There is accordingly a tendency toward specialization, and a further segregation of this field of law from the more ordinary branches of legal practice."

If "flagrant abuses," "weaknesses of valuation methods" (here is meant methods used by the courts), and "attack by political interests" are confounding our judiciary; and if, as stated by this author, "most lawyers are ignorant both of the procedure and the substantive law of condemnation," does it not behoove us as appraisers to bend every effort to make intensive study of this class of cases to the end that our part in such proceedings may have the dignity of true, unbiased, intelligent value opinions based upon a thorough knowledge and analytical ability?

We know that there are many attorneys who most ably handle cases in condemnation, and we know, too, that these attorneys are looking for the services of capable and honest experts such as are to be found in the ranks of the American Institute of Real Estate Appraisers.

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The Appraiser and Public Relations

By MARK CHEESMAN, M. A. I.

THE text of this paper is based solely upon my personal contact and experience in the small loan field throughout the state of California. I am thinking primarily of the problem of what might be termed the "small town appraiser" and the local "district appraiser" in metropolitan areas, as distinguished from the comparatively few men whose major activities have to do with appraising large downtown properties, or who are primarily specialists in some branch of valuation work, such as condemnation.

Numerically, the "small town appraiser" and the "district appraiser" in metropolitan areas form the largest group. He is engaged mainly in appraising residences and small commercial and income properties of various types. In dollar volume and in number of parcels, appraisers of this type, as a group, handle a greater volume of work and make wider public contact than any other group.

Because of this fact, the "small town appraiser" and the "district appraiser" will by their actions, in my opinion, have a great deal to do with developing and maintaining the general public's confidence in, and acceptance of, appraisers and appraisal services.

There are only five cities in the state of California having a population in excess of 100,000. There are sixteen in the 25,000 to 100,000 group and eighty-eight in the 5,000 to 25,000 group. In many towns in the smaller population group, it is difficult to find a professional appraiser. Large financial institutions experience difficulty in getting their appraisal assignments serviced. Outside appraisers from near-by or even from remote larger centers are today doing a large part of the appraising in many of these towns. They are laying the foundation today on which will be built the public's reaction in the future as to the general competence of the appraisal fraternity as a whole.

The general public is becoming increasingly appraisal conscious. The introduction in the current session of the legislature of a bill to certify public valuators and the activities of the several governmental agencies will continue to accelerate this consciousness. With this in the offing, it is a critical period for the appraisal fraternity as a whole. One of our pressing problems is to seek and merit wider public recognition and confidence. It is a good time to "take stock."

The appraiser sells service. It is urgent that the quality of that service be as uniformly high as possible and be maintained at that level. Each of us has an obligation to all other appraisers in this respect. There are a number of pitfalls which I believe will bear discussion for the common good.

PITFALLS OF THE APPRAISER

Scope of Activity: The small town or local district appraiser seldom, if ever, has the opportunity to appraise such properties as a theatre, a large industrial plant, a hundred-unit income property, or an office building. The city appraiser seldom appraises a farm; the inland appraiser knows little about waterfront properties.

Given sufficient time, I believe the well-trained appraiser can do any of these jobs. However, from the standpoint of public relations, he is foolish to accept them if his experience and data resources do not equip him to give prompt and adequate service, unless he reserves to himself sufficient time to make the necessary investigations. Some of the dangers are the all-inclusive terms —"appraiser" and "valuator." The lay public will take these terms at their face value, perhaps not realizing that the achievement of them could be through a more or less academic examination and is not a guarantee that the individual concerned is necessarily equipped to render the efficient service demanded to earn public confidence. Understand, I do not say such a man may not be competent; I stress his equipment to render adequate and prompt service so as to earn the respect and confidence of his client. It is illogical to expect that all appraisers have had wide contact and experience with all types of property. Geographical limitations alone would render this improbable — as in the case of the inland appraiser and waterfront property.

Irrelevant Material: Appraising, as a science, is in its infancy. To quote from the introduction in Frederick M. Babcock's book *Valuation of Real Estate*:

> "Unfortunately the inability to introduce precision and great accuracy into valuation has been obscured. Many persons have come to believe that there are sets of rules which, when taken together, constitute a science of real estate valuation. It is very generally believed that valuation is not only possible but that great accuracy can be secured. This is not so. . . . However, the great majority of properties are capable of some analysis; valuators can form fairly plausible forecasts with respect to their future uses; such properties can be appraised within limits which serve most of the business or government purposes which require resort to valuation."

Needed data to carry out the concept I have just quoted are scarce, and much of what we have are of questionable accuracy. Much superfluous data are gathered and used, or misused, as the case may be. It is a tendency for the overzealous student appraiser to take in too much territory in relation to his data resources, with the consequence that his work suffers, and, therefore, the public relations of all appraisers suffer and lose stature in the minds of our future clients.

Complicated Form: Another pitfall is the tendency, in some cases, to present to the client a report which sets forth the manner of reaching an estimate in more or less complicated forms of technique. This can be an impressive but dangerous method of rationalizing an estimate and, in the case of what is generally termed a "sour" appraisal, may come back to haunt the unhappy appraiser. To refer to Mr. Babcock again — on page 412 of his book in discussing his income premises — he states in part:

> "Of course the rate of fall of these incomes should be based upon the average experience of building incomes of various kinds. No such study has been made in which a sufficient number of instances were included to draw a general conclusion with respect to the exact shape to give such income curves. Hence the curves presented in the Appendix are selected empirically."

Upon looking up "empirically" in the dictionary, I find it relates to one who "relies only on experience and observation as opposed to theory based on scientific conclusions." Undoubtedly, Mr. Babcock intended this as a warning. The appraiser will do well to see that his supporting data are adequate and accurate before publicizing this type of technique in reports going into the hands of the general public.

Extravagant Claims: We should avoid such inconsistent and contradictory statements as the claim which I have seen in print, namely, "only a trained appraiser can estimate the fair value of property," and, in the next breath, "next to integrity, *judgment* and *common sense* are the most important elements in valuation work." There are individuals in other lines of business who make no claim to academic appraisal knowledge but who are straight-thinking, keen observers with excellent judgment. Many of them have invested wisely and profitably in real estate. Their opinions are of real value and are amply supported by results. Rather, let us strive to demonstrate that the competent and trained appraiser fills a real need in the real estate field — that his claim to distinction arises from trained judgment, plus experience, and plus his equipment to render prompt, competent, and impartial service for a fair fee to those who may have need of such services.

"Hearsay" Data: We have books and

studies galore expounding value premises and valuation techniques. They are of unquestioned value in the general valuation scheme of education and progress. However, we have far too little material of practical local value in our respective communities that will put the much needed foundation under our conclusions and estimates, and thereby assist in rendering them supportable to our local clients. There is entirely too much "hearsay" evidence presented in appraisal reports in the guise of supporting data. We are having too many successful operations in which the patient dies, such operations taking the form of estimates based upon formula and technique, unsupported by adequate and accurate data. Whenever this happens, one more appraiser is labeled as being one of "the starry-eyed gentlemen with the pear shaped head" by an irate client who has paid good money to be told something that is not so. The public relations of all appraisers receive a body blow when this happens.

One of the major steps that should concern us all immediately is to build up collectively our data resources and then, what is more important, analyze and interpret the data to the best of our ability, separating the wheat from the chaff in order that our data may be in usable form and of tested value, rather than mere quantity kept handy to fill up the spaces in an appraisal report. We can and should make a reality of that often quoted definition of an appraisal which is defined as being a "supportable judgment."

As an example of one type of data that is valuable in estimating either the warranted value or the price level of typical residential lots in my town, I have checked a number of factors that underlie such values and prices.

On the demand side is charted the yearly rate of population growth of the town for the past twenty-six years to date in order to obtain an approximate picture of the size of legitimate demand for residential sites.

The sales velocity and price ranges of a number of subdivisions during boom and depression years are studied next, both as to original subdivision prices and resale prices, to get some idea of the rate of absorption.

This rate of absorption is further checked against the rate per month of residential building permits for the past fourteen years to reach mere speculative absorption as distinguished from a legitimate demand for use.

On the supply side, I have taken an inventory of all vacant lots and raw land now available, except that which is marginal and static with small likelihood of being brought into use within the near future. A sufficient number of current sales and asking prices for these lots and raw land have been checked to peg today's price levels and to give some indication of the probable future trend.

In addition, a check is made of the number, size, estimated price range, location, and date of opening of all subdivisions of any importance for a number of years, together with a check on the "built-up" factor as of today. This gives some indication of the success, or lack of it, in the various subdivisions and directs attention to searching for the reasons, whether it be market conditions or matters inherent in the subdivision itself.

To throw some light on the factors of income and social levels, sample studies of occupational levels have been made in various subdivisions, both new and old, and in different price ranges.

These factors and others, plus the physical characteristics of a lot and the neighborhood in which it is located, should provide a useful supply of valuable supporting data upon which to base an estimate of value or price, or both. Probably a very small portion of this data would be included in an appraisal report, but it is available to further support an estimate if necessary and, what is perhaps most important of all, to widen the appraiser's perspective so that he can consider the forest as well as the tree.

Poor Appraisal Reports: Another pitfall has to do with the appraisal report itself. I have had considerable opportunity during the past three years to put myself in the shoes of both the client and the appraiser. It has furnished me an opportunity to appraise the appraiser. Much of the work was excellent both as to the presentation of the report and the estimates of value and price. In too many cases, however, one fact stood out sharply: the run-of-the-mill appraisal report shows a deplorable scarcity of pertinent supporting data, so that when it is out of the hands of the appraiser, it does little to claim public recognition and confidence in the services of appraisers as a group. I do not mean to say that the report should be cluttered up with a mass of irrelevant data. However, in an appraisal of a residence, for instance, where the major approach selected might be that of comparison, the report should at least contain reference to a sufficient number of comparable properties that have been adequately investigated and then rated in comparative terms with the subject property to enable the client to follow the appraiser's reasoning and understand the data upon which he based his conclusions.

One of the estimates called for in the appraisals I have in mind was the present, competitive cash price the property would command in the market within a period of ninety days. It was noticeable in a great many cases that certain appraisers' estimates were consistently higher than the cash price for which the seller was actually willing to sell the property. As evidence of this over-appraising, an examination of over 1,400 transactions developed the fact that only three per cent of the sellers refused to sell at the price finally offered, which was a lower price than that estimated by these appraisers. At a point in the report where these appraisers should have been reasonably accurate and consistent, they were obviously making an educated guess as to local conditions with which, it was assumed, they were entirely familiar. Therefore, the results did not measure up to the subsequent operation of actual purchase in the market.

Possibilities vs. Probabilities in the Report: Another common point noted was the reciting of possibilities instead of probabilities, based again upon insufficient data to support the reasonableness of the conclusion. The possibility, for instance, of a residential property being put to a new and higher use is relatively easy for anyone to assume. The probability that it can be done profitably and *when* is the important thing. Adequate and pertinent supporting data are indispensable at this point to give weight and validity to the appraiser's conclusions.

Many of the appraisal reports examined were masterpieces of technique in that income levels were glibly estimated to be such and such an amount; percentages of ownership and tenantship and the many other pertinent factors were reduced to specific figures, but when supporting data were called for, they were usually conspicuous by their absence. The inconsistency of the estimates of these appraisers usually increased in about direct proportion to the distance they got away from the "home grounds"—in other words, away from familiar data.

CREATING AND PRESERVING PROPER PUBLIC RELATIONS

It is the elimination of this type of appraisal service that is important to the public relations of all appraisers.

The reply might be, "It is very well to render complete and supported reports, but they cannot be done for a fee of five dollars or less." True, they cannot; it is further true that "five-dollar" appraisals, if continued, will probably do more than any other thing to hinder the progress of the appraisal profession.

The institutional appraisal, if sufficient in number and done upon a more or less wholesale basis, may readily be done for a wholesale fee by the appraiser who does not have to "custom tailor" his data program for each property — in other words, an appraiser whose data resources are adequate and up to date. But there is not enough and probably will not be enough institutional appraising to support any large number of appraisers; it is to the general field that we must look for an additional volume of future business. There should be a substantial business from the buyer and seller in the general market as well as other new undeveloped sources.

Every one of us should give serious thought to this matter of adequate fees so that adequate work may be done. When it is considered that the broker charges $250 to $300 commission for the sale of a $5,000 property and the title company charges $40 for a title report, it does not seem that a five-dollar or ten-dollar fee for an appraisal is in the proper relationship if the appraisal is worth anything at all. There seems to be little rhyme or reason to the typical real estate board schedule of fees. They are apparently based upon anything except a comparison of other services rendered in the real estate field and usually violate appraisal ethics in that they are contingent upon the amount of the value found. Personally, I do not know the answer to this important question of adequate fees, but I respectfully submit that before the adequate fee is charged, it is the responsibility of the appraiser to equip himself to earn it.

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Comment and Discussion

Thompson—ON REAL ESTATE HAVING MORE THAN ONE VALUE[1]

I WISH to express a "dissenting opinion" to the statement of Mr. Dominick Dunn, which appeared in the April issue of this *Journal.* His thesis was on the subject, "Can Real Estate Have More than One Value?" and held that there is only one "value," as of a given time, to a given piece of real estate. I strongly feel that we of the Appraisal Institute would be falling into very serious error if we accepted Mr. Dunn's contentions as correct. My objection can be summed up concisely in the quotation from "Through the Looking Glass" that heads James C. Bonbright's new book *The Valuation of Property:*

> "'When I use a word,' Humpty Dumpty said, in a rather scornful tone, 'it means just what I choose it to mean—neither more nor less.'"

Mr. Dunn and the group of appraisers who think as he does are taking a word with hundreds of years of history in the English language and saying that it means just what they choose it to mean—neither more nor less—the dictionaries, the courts, and millions of others to the contrary notwithstanding. We appraisers are an infinitesimal group in the hundreds of millions speaking the English language; it is rank arrogance on our part to try to confiscate this word and bend its meaning to our sole will. If we talked only among ourselves, we could use any definition we chose, as a colloquialism, and we would understand each other, but such restriction on the field of our activities would cause us to starve to death. If we choose to speak to the world at large (as we must), we must plainly indicate in what way we have transformed commonplace words into our particular jargon.

Valuation of property has a written history extending back 2,000 years before Mr. Dunn and I were born. All through the years more than one kind of value has been recognized and spoken of; for instance, the ancient Romans recognized more than one kind of value, such as:[2]

> What the article can be sold for (*quanti venire potest).*
> Value to people generally *(quanti omnibus valet).*
> Value to the owner *(id quod interest).*
> Sentimental value *(pretium ex affectu).*

If that is history too ancient for the present discussion, let us take a look at some of the modern uses of the word "value" which are at least as legitimate as the uses adopted by members of the Appraisal Institute. Your fire insurance policy uses the term "actual cash value" (despite Mr. Dunn's statement that the fire insurance company is not interested in "value"). The insurance adjuster's concept of value is entirely different from Mr. Dunn's, and the adjuster would deeply resent an accusation that his concept has been wrong throughout the years that insurance has been written and litigated. The balance sheet of a company may bear a footnote to the effect that assets have been stated at "market value," but the value so stated is not the same as Mr. Dunn's "generally accepted" definition.[3] Probably the biggest appraisal job in the history of the world was the valuation of the railroads of the United States by the Interstate Commerce Commission. Here again the values were different from Mr. Dunn's "generally accepted" definition. The accountant, tax assessor, public utility commissioner, economist, and the security analyst disagree with Mr. Dunn's school of thought in whole or in part. To the owner of a property, its "value," as like as not, is its value to him. To the "man in the street," the "value of a thing is what it will bring."

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[1] This subject has been the football in many of our hottest debates since the inception of the Institute. We invite you to give it a "kick."—Ed.

[2] From "Valuation of Property in the Roman Law," by Nathan Matthews, in the Harvard Law Review for January, 1921.

[3] Mr. Dunn's definition of value reads, "Value is a sum stated in terms of legal tender on which a buyer and seller can agree when both are intelligent, well informed, and not compelled to act."

So much for the rights of others to use our word "value."

Consider now Mr. Dunn's assertion that exponents of multiple values confuse "value" and "price." Perhaps I am confused when I assert that there are multiple values and that price is one of the forms of value, but I respectfully refer to the dictionary, to the fathers of the discussions of value in the English language and their successors to date, to various court decisions, to tax laws of various states,[4] to economists, to "the man in the street," et cetera, and to Mr. Dunn's school of thought as partners in my confusion.

Mr. Dunn's school of thought becomes my partner when it says (as Mr. Dunn does) that "value is a sum stated in terms of legal tender on which a buyer and seller can agree." If they act on their agreement, a price results and Mr. Dunn's definition of value coincides with mine. (Of course, the position of Mr. Dunn's school of thought is that it is in agreement with me only so long as the price agrees with the mental reservations and qualifications put around *its* definition of value and not when the price agrees with the mental reservations and qualifications some one else puts around a different definition of value.) As a sample spokesman for the "confused," I quote again from Professor Bonbright's book:

> "To us an abnormal, or evanescent, or extortionate, or dangerously low market price represents just as true a current value as does a normal, or permanent, or fair, or reasonably high market price. Here we follow by analogy the customary usage of scientific language, which attributes just as much reality to an abnormal phenomenon as to a normal one."

My objection to Mr. Dunn's thesis is that he has taken a widely used word—"a word of many meanings," according to Justice Brandeis—as his own, without regard to the rights of others to use that word in their meaning and to read, legitimately, their meaning into the word if it stands alone, without explanation in an appraisal report. Standing alone, the word "value" has so many meanings that it is almost meaningless. If Mr. Dunn's school of thought wishes to restrict its activities to the one type of value set forth in Mr. Dunn's definition—and it definitely defines the type of value found—well and good, but if the reservations and qualifications are "off the record" when this school speaks in public in an appraisal report, it uses a word which means one thing to the speaker and may mean many other things to the listener. One can well understand the confusion which might result where the "value" found is twice the current market price, as in one of Mr. Dunn's examples,[5] if the definition of the value found were not clearly disclosed.

I believe I have shown that in the English language, "as it is spoke," the word "value" has many meanings and that the amount of value found for a particular property would change as the meaning (definition) of the word changed. A few examples of assignments that have come my way may serve to illustrate the practical aspects to the appraiser of the different types of value.

A large industrial concern owned some twenty-five rented dwellings and desired various valuations, as follows:

1. Investment value to the owner—which was based upon the net income capitalized at the going rate for like investments.
2. The price at which the property could be quickly sold.
3. The price at which the property could be sold with reasonable selling effort over a reasonable period of time on customary terms. In the case of some of the better

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[4] For instance, the tax law of New Jersey states that property shall be assessed at "true value," being "such price as . . . such parcel would bring at fair and bona fide sale."

[5] Mr. Dunn's definition, as quoted above, does not seem to fit such a situation very well, as there could be reasonable doubt as to the "intelligence" of a man who agreed to pay twice the current market price.

dwellings, this figure was considerably different from the investment value to the owner.
4. Insurance value.
5. Taxable value.
6. Value to the owner for its own use of the land (the buildings to be razed) within ten years.

Another assignment covered a large industrial building leased by the owner, where the information wanted was:

1. Estimate of annual rental that could be obtained within six months for a one-year term.
2. Estimate of annual rental that could be obtained within eighteen months with aggressive renting effort, for terms of one, five, ten, twenty, and thirty to forty years.
3. Estimate of rental for the above term of years if vacant competitive space were absorbed and new construction of similar space should again be warranted, with an estimate of the probabilities of such absorption within the next few years.
4. Rental value to the present tenant.
5. Cost of reproduction of the building.
6. Cost of reproduction less depreciation of the building.
7. Value of the land under the building, based upon the price at which competitive land could be acquired.
8. Recommended minimum selling price.
9. Severance damages from sale.

A very frequent assignment is valuation of property for specific uses. In this way, the "highest and best use" can be more reliably estimated than by just a shot in the dark, and the basis is laid for a decision whether or not to accept an offer now based upon, say, the third "highest use" instead of waiting for an offer based upon the "highest and best use." Another valuation along the same line would be an estimate of value of a special purpose property to the present occupant, together with an estimate of what could be realized for the property if that occupant moved out and the property went on the general market.

In such assignments, it was imperative that a definition of each specific value found be included in the report, if the reports were to be intelligible.

Mr. Dunn's school of thought may say that my results were not "values." However, they were all projects of the type an appraiser is called upon to appraise. The men who paid me considered these to be "values" and had plenty of precedent in the application of the word "value" to each type of project shown. (As a matter of fact, the word "value" appeared infrequently in those reports.)

I venture to predict that in the not too distant future the single lump sum value will be of secondary interest, so far as income property is concerned, even in appraisals for mortgages. To cite a single illustration, abnormally high leases would be reflected in the current lump sum value placed on a property, but they would be of little help to a mortgagee whose mortgage matured after the abnormally high leases expired. The property matters having the most important bearing on the security of a mortgage on income property are not the current value, but are:

1. The ability of the property to carry the mortgage during the life of the mortgage.
2. The trend of net income and market value during the life of the mortgage.
3. The price at which the property could be sold or rented at the time of foreclosure, if it must be foreclosed. (The foreclosure would, in all probability, be during a depression period of low sale and rental values, with the property in rundown condition because of under-maintenance while the owner was trying to stave off foreclosure.)

The primary utility of current lump sum value is as a basis for estimating the really important facts which are extremely difficult to predict.

In my opinion, it is the function of the appraiser to develop useful information on the various phases of property valuation. A rigid adherence to the viewpoint that there can be but one *value* would necessarily restrict the appraiser's field of activity.

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Carll—On Easement Costs and Damages Under California Practice

We, as appraisers, recognize that the market value of real property is the amount, expressed in terms of money, which the general buying public will pay for all the rights to the future benefits that will accrue by reason of ownership. Thus, we recognize that real property consists of numerous rights. An easement is one or more of these rights but not all of the rights that constitute the property as a whole or the fee absolute.

If we clearly understand that what is appraised is not only the superficial area of the land and the physical improvements thereon but, more important, the right to enjoy all the benefits which will accrue in the future, then we can approach the evaluation of easements intelligently. An easement is only some of such rights which are separated from the fee and divested to another owner. It is, in fact, similar to a lease wherein certain rights of use are granted to another, the difference being that leases are usually for definite periods of time, whereas easement rights are usually perpetual.

In the evaluation of easements, therefore, we must realize that, while consisting of valuable property rights, the easement is only a portion of all of the rights inherent in the ownership of real property; that the rights and uses granted in an easement may vary greatly, even under the same general types; that the location of the easement and its relative size are major factors to be considered preparatory to forming an opinion of value; that various classes of property establish a wide spread of easement value for the identical type of easement.

A majority of purchasers of easements are those who have the right of eminent domain, that is, the right of acquisition by condemnation. Because of this fact, the laws have designated certain procedure to be followed in the acquisition by condemnation.

Although many easements are acquired as the result of private negotiations by purchasers who possess the right of eminent domain, it is nevertheless advisable to follow the valuation methods as used in condemnation procedure. If these methods are correct for court use, they should apply to private negotiations; then, in the event the negotiations fail, the value can later be supported in court.

An easement value is generally considered to be the total acquisition cost. Under methods prescribed for condemnation procedure, this total cost is made up of two parts, one part being the value of the rights and uses granted, the other part being a damage amount, that is, the damage, if any, to the land not covered by the easement.

The damage amount is generally spoken of as "severance damage," a common designation which is very misleading. This additional amount is included in the compensation to the fee owner for any lessening in value of that portion of the property over which the easement is not imposed, provided, of course, that any such lessening in value of that portion of the property over which the easement is not imposed, provided, of course, that any such lessening in value is created by the granting of the easement.

Let us next consider the approach to estimate the first portion of the easement value, namely, a value for the rights and uses granted, generally spoken of as the "part taken."

Since an easement is only a portion, or fraction, of the fee absolute, or is less than all the rights that constitute the property as a whole, it is evident that its value is some amount less than the market value of the fee. This is always a fact, regardless of the type of easement or the uses and rights that are granted.

An analysis of any easement that appears to be equal to the taking of the fee absolute, such as where the right to use the surface of the ground is granted, as for road purposes, aqueduct use, or railroad right of way, will show that the fee owner did not convey rights to all the future benefits that may inure to the ownership; for, it is possible, and is often the case, that the owner of the underlying fee, at a subsequent date, can grant additional easements over this same area, such as underground easements for pipe lines, sewers, or storm drains, and also grant aerial easements for pole lines or power transmission lines, provided the subsequent grants do not interfere with previous grants.

Thus, we see that the rights and uses granted must be paid for and a value must be found. Such value may exceed ninety-nine per cent of the market value of the underlying fee but must be less than one hundred per cent of the market value. It is well to remember this if you are qualifying as an expert witness and endeavor to support your value under the cross-examination of one of these new-model, streamlined, rapid-fire legal interrogators.

Market value is the yardstick or measure used to estimate the fee value of the easement area and is the *opinion* reached by processes used by all of you in everyday appraisal work. The degree of accuracy exercised in reaching the opinion of the market value of the property should closely establish the soundness of the easement value.

Easements generally are imposed over a fractional portion of a property. Therefore, having arrived at an opinion of the market value of the whole property, the next step is to allocate to the area covered by the easement its respective portion of the total property value. In so doing, it is not proper to make this allocation upon an average per unit value if the property consists of various land classifications and unit values. It should be compiled from the actual unit values that exist within the easement area.

For example, consider a forty-acre tract having a total market value of $4,000 — this being an average of $100 per acre — which aggregate value is compiled from the following classifications:

10 acres vineyard	@ $200 =	$2,000
10 acres alfalfa	@ $125 =	$1,250
10 acres pasture	@ $ 65 =	$ 650
10 acres rocky hills	@ $ 10 =	$ 100
Total		$4,000

It would be inequitable to the fee owner to say that the market value of the area of an easement imposed across the $200 per acre vineyard should be set up at the average value of $100 per acre; conversely, it would be inequitable to the grantee to set the market value of the easement at the average value of $100 per acre in the event the easement were imposed over the $10 per acre portion of the property.

It is necessary, therefore, in order that the correct portion of the market value of the property be allocated to the easement area, that diligence and judgment be exercised in assigning the unit values to the area of the easement.

Upon formation of the opinion of the market value of the easement area, it is then necessary to estimate what portion of this market value represents the value of the rights and uses granted in this area. Estimation of what this amount shall be is predicated solely upon the type and kind of easement imposed, in other words, the value of the rights and uses of which the owner has been dispossessed.

Each easement, by which is meant the rights conveyed under each document, regardless of kind or type, has to be considered upon this basis. It is the duty of every appraiser to make himself thoroughly familiar with the particular easement under consideration.

Citing extreme cases, it can easily be realized that an easement three feet in width over the rear end of a residential lot, used only for the erection and maintenance of pole lines for electric and phone service, wherein the owner retains the surface use of the easement area, would not have the same value as a railroad easement 100 feet in width imposed across a bearing citrus grove, whereby the owner grants all the horticultural and agricultural use of the surface of the area included in the railroad easement.

Having completed an opinion of the value of the part taken, consideration must be given to the matter of damages to that portion of the property in the same ownership, which is not included in the easement area. This is to determine whether any damages will be created by the granting of the easement and, if so, the amount.

This consideration and calculation is entirely different from the previous one and is in no way dependent upon or connected with the value of the rights and uses granted. Except in the event a damage amount is found, its net is added to the value of the rights and uses granted to produce the total easement value. It is well to remember that, in this phase of the valuation, a damage amount may or may not be found.

Also, it should be borne in mind that under condemnation procedure the law contemplates that the owner shall receive *just compensation* for that which is taken away from his original property. The value of the rights and uses granted, plus certain damage amounts, if any, is, therefore, the "easement value" and must be "just compensation" to the grantor.

Therefore, the quickest and simplest procedure to estimate whether any damage amounts are to be incorporated in the easement value is to use the "before and after" method. Briefly, this means that if a property has a total market value of, say, $4,000 before the easement is imposed, and it is the opinion that the uses and rights granted have a value of $500, and the further opinion that the market value of the property after the easement has been imposed is $3,000, then an amount of $500 damages must be incorporated for "severance." Thus, in order that the grantor may receive his just compensation, in other words, be "made whole," the total easement value must be $1,000.

However, should the opinion of the market value of the property after the easement has been imposed be $3,500, then the $500 value for the rights and uses granted is just compensation and no severance damage has been created.

Any lessening in value of the remaining lands not encumbered with the easement, which is a direct result or the consequence of the manner in which the easement improvement was or is to be constructed, such as a change of street grade, can be considered a damage item which can properly be included as a factor of just compensation.

In order that an intelligent consideration of severance damage items can be considered, it is essential that the appraiser be well informed as to the construction of the improvements in the manner proposed and also be capable of realizing the economic and physical effect of such construction upon the market value of the remaining property.

Appraisers are not attorneys, but, in so far as the law delineates condemnation procedure, it is essential that the valuator of easements be familiar with the law and its interpretation. For example, there is no provision in this law for those items that appear to be a damage but which actually do not lessen the market value of the remaining property, such as damage to business, loss of profits or goodwill, the diversion of traffic flow, personal annoyance, or inconvenience.

Likewise, the law does not allow compensation for damages which are speculative, conjectural, uncertain, or remote. This portion of the law is very similar to the legal interpretation of market value, which states that market value must not be predicated upon special purpose or speculative uses nor the value in use to the owner or to the condemnor, both instances being to resolve the basis to such considerations as are given by the general buying public and not by some special or anticipated purchaser.

Damages which result from the operation of utilizing the easement cannot be incorporated as a portion of easement value. By this is meant that the loss of life or property by the operation of trains, high tension power lines, or high pressure pipe lines on under or over easement right of ways creates a damage which may or may not be collectible, generally based upon negligence in operation. These types of damages are the essence of an after matter to be judged on their own merits at the time of occurrence but in no way to be anticipated and considered as any part of an easement value at the time of the taking.

Many items go to make up the vast number of damages which actually do lessen the value of the remaining lands by reason of the granting of the easement, a few of the more commonly encountered being:

(1) Irregularly shaped remaining tracts, like long-pointed, triangular parcels.
(2) Area reduced smaller than an income unit, as a residential lot 12 feet x 30 feet.
(3) Increased cost of operation, such as cultivation or pest control.
(4) Cost of necessary added improvements, such as reconstruction of irrigation systems or construction of new fences.

The foregoing are only a few of such items, but they serve to illustrate that the law intends to allow damage for only such items as directly lessen the market value of the remaining property and as would be considered by a broad cross sectional analysis of the public's action in the real estate market.

Damage amounts should be allowed only for such items as pertain to the same use as that upon which the market value was predicated, namely, its highest and best use. For example, if the highest and best use of the property is industrial and it is so valued, but at the date of appraisal it is being utilized as an alfalfa ranch, it is not proper to allow damages for installing a new irrigation system, for such industrial sites are not irrigated.

Because it is necessary that one thoroughly understand what items may be considered as a damage to remaining lands and at the same time used as a portion of the total easement value, some appraisers, though acting in good faith, reach a badly distorted value. Such results can be corrected only by the acquiring of a complete knowledge of the subject.

Under certain conditions, there is one more item of value to be considered, namely, the offset of damage amounts by "benefits" that accrue by reason of the improvement of the easement.

This privilege is recognized in condemnation cases where a municipal corporation, a county, or the state is plaintiff. Even though authorities do not agree on this point, other parties having the right of eminent domain may have this legal privilege. In easement valuation, however, it is accepted practice to give serious consideration to this element.

Under this phase of the work it is first necessary to determine whether, by reason of granting the easement, there will be created a damage amount to the remaining lands. The value of any benefits to the owner can be credited only against the severance damage amounts and in no event against the value of the part taken.

Secondly, only those benefits can be allowed which actually and specifically inure to the property under consideration. They must be special benefits in contrast to general benefits which are enjoyed by other properties as well.

For example, if the granting of a road easement converts an inside lot into a corner lot, it is a direct benefit which should be used as an offset against severance damage. On the other hand, should the granting of a road easement benefit the property only by reducing the transportation time to a central business district, it would not be a particular benefit to any one property but to all properties in the vicinity.

From the "do's" and don't's" recited herein, you may be assisted in forming your opinions of value for easements.

What has been said does not embrace all that is usually encountered in such work; it does not prepare one to go into court; neither does it help greatly where an unusual type of easement is involved, such as tunnels deep under the surface; nor does it give consideration to values predicated upon comparisons, nor the basis of values upon ratios or factors that have been prepared for various types of easements from actual experience of large owners of easements acquired over many years' time involving all types of property.

Much could be said about the interests of lessees of land over which easements are to be imposed; whether an easement creates a cloud on the title, and, if so, whether an element of damage; why damage amounts are not properly designated when termed "severance damage"; why does the law state "just compensation"? In fact, easement valuation is a sizable subject about which no one knows all the answers.

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The Appraisal Docket

Cases, decisions, and other matters involving rulings and precedents affecting real estate and valuation.

William Wilson, Editor

THE JOURNAL A RECOGNIZED AUTHORITY

IT IS but meet that this column is inaugurated contemporaneously with judicial recognition of this publication of which it is to form a part. The lawyer is by such furnished with the highest sanction of his profession; the appraiser is not only gratifyingly afforded the conclusive practicality of his science, but is awarded with its recognition.

The author refers to the case of *First National Bank* vs. *Bryn Mawr Bldg. Corp.*, 365 Ill. 409, 6 N. E. (2d) 654 (1937). There the Supreme Court of Illinois was called upon to determine whether, as between first mortgage real estate bondholders participating in and non-assenting to a plan of reorganization concerning their securities, the price bid at the foreclosure sale on behalf of the former was fair as to the latter. The property constituting the underlying security of the bonds was a nineteen story and basement apartment hotel containing 1549 rooms, garage facilities for 170 cars, a swimming pool, dining room, barber shop, beauty parlor, and commissary. Upon examination of the evidence as to value of the property and instructed by the opinions of experts, the court reached the following conclusion (at page 428):

> "It is commonly known and accepted among Realtors, that in appraising the value of apartment buildings the elements of obsolescence and income play a most important part. *Recognized authorities* (italics the author's) on the appraisal of real estate are in accord in the view that future income, by reason of its uncertainty, cannot be taken as a safe guide in fixing values; that the value of apartment buildings should be based largely on a capitalization of the actual net income before allowance for depreciation. The Appraisal of Real Estate, by Frederick M. Babcock; (Vol.), 1 Journal of American Institute of Real Estate Appraisers, No. 4, by Ivan A. Thorson."

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QUALIFICATION OF VALUE WITNESSES

The field of real estate appraisement, for some time emerged from puberty, has now received the recognition which it deservedly merits though there are many socially imposed retardations. The statute books, for example, have never prescribed other qualifications for appraisers than that they shall be disinterested freeholders. A typical example is to be found in Illinois in its exemption statutes (Ill. State Bar Stats., Chap. 52, Par. 10) where, to determine whether the homestead is over $1,000 in value, three householders shall act as commissioners. Nor have the courts been reluctant to admit to testimony the opinions of the laity. Admittedly, the opinion witness as to real estate values need not be an expert. 1 Wigmore, Evidence (2nd Edition, 1923) Section 714; *Johnson* v. *Ry. Co.*, 111 Illinois 413 (1884); *Montana Ry. Co.* v. *Warren*, 137 U. S. 348 (1890). However, the weight to be given to the opinions of such witnesses varies with their qualifications. *Pike* v. *Chicago*, 155 Ill. 656, 40 N. E. 567 (1895). The lawyer, whose duty it is to lay before the court for its assistance all relevant information, will do well to employ the assistance of qualified expert witnesses.

EXPERT WITNESSES AND THEIR FEES

Fortunately, the judicial prejudice which has existed in proportion to the amount of fees paid such experts has well nigh spent itself. This is aptly illustrated by the case of *Lyon* v. *Oliver*, 316 Ill. 292, 147 N. E. 251 (1925). At the trial of that case the plaintiff employed expert witnesses who were paid $100 a day for their services. The defendants had also relied on expert testimony but paid their experts much less than the plaintiff. The trial court upon the evidence adduced found the issues of fact in favor of the plaintiff. Upon appeal to an intermediate court, the judgment was reversed on the theory that, of two opposing sets of witnesses, special weight should be given to the testimony of the witness on one side *because they were paid the least* (italics the author's) although admittedly less competent than the opposing witnesses. The plaintiff's lawyers were in a quandry. The competency of their witnesses was utterly ignored! Fortunately for them, the famous author of "Questioned Documents," Albert S. Osborn, while engaged in the completion of a new book then on the press, had heard of the decision and immediately added to his work a scorching indictment of such a judicial attitude. In his "The Problem of Proof" (Matthew Bender & Co., 1922), at page 327, Mr. Osborn commented as follows:

> "It is obvious that where reasoning of this kind governs the decisions of reviewing courts that advocates and litigants will continue to furnish the kind of testimony that can be used in such reasoning. . . . It is of little value in the interest of justice to illustrate testimony and explain it, if courts will, in a prejudiced way, refuse to examine it. The quality of reasoning presented in this case will, no doubt, continue in some places for some time, but it will more and more receive that scorching comment by progressive legal writers and higher courts that it deserves. Think of the danger of entrusting the interests of justice to such minds!"

Mr. Osborn's prediction came true. Upon appeal to the Illinois Supreme Court (case cited above), that august body was moved to say:

> "Defendants in error contend that these experts were influenced by a pecuniary stimulus and that their opinions should be given less credence than the testimony of defendants in error's experts, who had had less experience and given less time to the study of questioned documents and received less compensation for their services. While expert testimony is too often commercialized and frequently discredited, there is no reason why a person who has devoted years of time and study to a particular subject, when called upon to testify with reference to that subject, should not receive a greater compensation than one who has not given the subject the same study and consideration. The testimony of an expert witness is not to be discredited solely by the amount of his compensation. The testimony of such witnesses is to be tested and weighed by the same rules as the testimony of other witnesses is tested and weighed. The value of such testimony varies with the circumstances of each particular case, and in weighing such testimony its nature and character are to be taken into consideration. While opinion evidence based upon hypothesis has been held to be of but little value, the opinion of an expert may be of great value where it calls the attention of the court to facts which are capable of verification by the court, which the court otherwise would probably have overlooked, and the opinion of the expert is based upon such facts and is in harmony therewith."

However, consistent with the Rules of Professional Ethics adopted by the Institute (Article I, Sec. 2), compensation of expert witnesses should not be made contingent upon the outcome of the trial in which testimony is given. Contracts for such contingent fees are void and unenforceable, being against public policy. *Wright* v. *Corbin*, ——— Wash. ———, 67 P. (2d) 868 (1937). That case held void a contract of employment of an expert witness who was to receive double compensation in the event of an outcome favorable to his employer in the lawsuit in which he testified.

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MORE ABOUT EXPERTS' FEES

May an expert witness in the absence of statute authorizing the trial court to fix expert witness fees, refuse to testify because he has not been paid his stipulated fee? The Kansas Supreme Court in a recent case has held that he may not. *Swope* v. *State*, ——— Kan. ———, 67 P. (2d) 416 (1937). There a physician refused to testify in a trial prior to receipt of his fees for expert testimony. The Court held his refusal to be contempt. At page 419 it was said:

> "It [the situation presented by refusal to testify until payment] would tend to permit those who could afford it to produce witnesses whose testimony might be said to be expert, and would prevent those without requisite means of the benefit of such testimony."

It should be noted, however, that the Court carefully distinguished the instant case from that where the expert witness has devoted special preparation beforehand to the matter in question, intimating that, in the latter instance, the expert might have constitutional immunity on the basis of a property right of which he could not be deprived without reasonable compensation. But mere specialization in a certain profession alone will not afford the expert such basis.

* * *

THE UNALTERABLE, UNERRING, INFALLIBLE VALUE

It has been the thought of no few competent appraisers that by the employment of an absolute science an indisputable value of real estate may be conclusively obtained. While this may be true in Mr. Maynard's famous "cloud-cuckoo-burough land," the lawyer who works in conjunction with such "true believers" will unhesitatingly become apostate. The reason is apparent, once the "science" is explained. Briefly, it is to take the itemization of the income and expenses of the property in question, cast those items out which are not reasonably expectant under normal circumstances, and by the employment of those left in, with mathematical certainty one is able most unerringly to arrive at the infallible value! Of course, what the advocates of this method entirely overlook is that there will rage immediately a hot dispute as to proper deletions and further as to proper amounts of the accepted items. The lawyer sees his own witnesses argue among themselves and disconsolately visualizes what a luscious meal will be presented in court to the harpies of cross-examination. Such method was attempted in the case of *Lomas & Nettleton Co.* v. *City of Waterbury*, ——— Conn. ———, 188 Atl. 433 (1936) wherein the Court remarked:

> "As pointed out in the memorandum of decision of the trial court, each one of these items of income and expense immediately became a matter of opinion as to which the experts differed widely, thus depriving the result of that *mathematical accuracy* (italics the author's) claimed by the plaintiff to follow from the use of actual figures of income and expenditure."

The author, of course, has now thrust himself into the very midst of controversy. He recognizes his limitations, but accepts the challenge of those whose cherished tenet he has so rudely criticized. He in turn asks for criticisms, for he intends in the next issue to discuss the question of the robotesque value in more detail.

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What to Read

Comments on recent surveys, books, and articles of interest to real estate appraisers.

Carrie Maude Jones, Editor **Librarian, American Institute of Real Estate Appraisers**

Cubic Foot Cost Standard Calculator

AN INTERESTING service called the *Cubic Foot Cost Standard Calculator* is being published regularly by The Dow Service, Incorporated, New York City, publishers of The Dow Service Daily Building Reports. The April, 1937, to June, 1937, issue, Number 28, covers the period from April 1, 1936, to January 1, 1937.

More than one-half of this eighty-page pamphlet is devoted to cubic foot construction cost figures covering all types of buildings listed separately for the second, third, and fourth quarters of 1936.

The area covered is primarily Metropolitan New York, but figures are also found for other cities in the states of New York, New Jersey, and Connecticut. In order to give these tables a national usage, a cost differential table has been included which adjusts these figures to twenty-seven other cities, as follows: Albany, Atlanta, Baltimore, Birmingham, Boston, Buffalo, Chicago, Cincinnati, Cleveland, Dallas, Denver, Detroit, Houston, Los Angeles, Minneapolis, Montreal, New Haven, New Orleans, Philadelphia, Pittsburgh, Providence, Rochester, St. Louis, San Francisco, Seattle, Syracuse, and Utica.

This service is particularly valuable in that it gives cubic foot cost figures for unusual types of buildings. In addition to full information on apartments, residences, hotels, and office buildings, we find figures on hospitals, schools, armories, bottling plants, breweries, churches, comfort stations, funeral chapels, green houses, hay barns, ice houses, mausoleums, parish houses, police headquarters, stables, and kennels. A good size picture of nearly every type of structure is likewise included for the purpose of easy identification.

Another feature which gives the publication added value is the detail with which the building is explained in many instances. The following is an illustration:

"Warehouse. 1 basement. Typical old constr. NYC, Hudson Street. Exterior Brick and Frame, 7 stories. Originally of brick and frame — steel columns and girders added to reinforce throughout—Loading platform across front — Fire escapes on front — 2" x 10" exposed wood beams — 2" oak flooring laid diagonally — Party wall in center with tin-clad sliding doors at all openings — Fireproof stair halls and stairs — Extra heavy cast iron plumbing roughing — Vitreous tile fixtures — All exposed electric conduits — Small heating plant for first floor only — One Otis freight cage type elevator serving all floors on 2 sides — Overall size 80x95x88—654 thousand cubic feet—Fire Ins. replacement value. Cost, second quarter, 1936, 24; third quarter, 1936, 25; fourth quarter, 1936, 26."

Fully half of the contents of this pocket edition consists of miscellaneous tables helpful to appraisers, such as the hourly rates of wages for building trades in forty selected cities, comparative tax and assessment information, construction volume statistics, percentage that the cost of each class of work forms of the total cost of non-residential building by cities, etc. We also notice a page on the costs of automatic sprinkler installations. Another feature included for the first time in this issue is a page giving conditions influencing site values. This is explained as a yard stick to aid the appraiser in determining the true economic investment value and risk in residential property.

The charge for The Dow Service is $15 a year, which includes four quarterly corrected issues; it also includes free daily use of their Information Bureau which is intended to keep the figures right up to date. Appraisers should be aware of the existence of this reference tool for it may meet a definite need at some future time.

CARRIE MAUDE JONES.

Chicago, Illinois.

Book Reviews

Orgel, Lewis. VALUATION UNDER THE LAW OF EMINENT DOMAIN, New York. The Michie Company, Charlottesville, Va., 1936, 976 pp., $12.00. (Published under the auspices of The Columbia University Council For Research in the Social Sciences — James C. Bonbright, Editor.)

THIS BOOK is a compilation of a great many cases having to do with Valuation Under Eminent Domain, supplemented with the author's discussions of the decisions made by the courts. He has not solved the problems which have been troubling the courts for generations, but he has assembled into one volume information and references which will be time savers to attorneys and appraisers working on these cases.

As far as we know, no other volume has so completely covered this field.

The content of the work consists of twenty-two chapters with conclusions by the author at the end of each chapter. Approximately seventy-two pages are devoted to the general heading "Fair Market Value." All types of values pertinent to eminent domain cases are discussed, and reference is made to court decisions pertinent to each.

Other phases which are exhaustively covered and supported with citations of applicable court decisions are:

Value to the Owner as a Factor in Fair Market Value.
Damages to Remaining Property—The Partial-Taking Cases.
Value to the Owner — Incidental Damages.
Value to the Taker.
Valuation of Improvements Made By a Condemnor on Property Prior to its Condemnation, As an Act of Trespass.
Value as Affected By the Anticipated Benefits or Injuries from the Proposed Improvement.
Valuation of an Encumbered or Divided Fee.
The Apportionment of a Total Award Among the Various Interests in the Real Estate.
Introduction: Opinion Testimony.
Sales and Offers as Evidence of Value.
Assessed Valuations and Other Official Valuations as Evidence of Market Value.
Income as Evidence of the Value of Real Estate—Business Profits.
Income as Evidence of the Market Value of Real Estate—Actual or Estimated Rentals.
Reproduction Cost of Structures as Evidence of Value.
Valuation of Public Utilities for Condemnation of Purchase—General Principles.
Valuation of Public Utilities—Physical Property and Intangibles.
Valuation of Public Utilities: Evidence—Severance Damages.
English Cases Dealing with Valuation of Utility Property on Public Acquisition.
Condemnation of Securities.
The Practice of Condemnation Valuation—Summary and Conclusions.

The author, in conclusion, states:

"The law of eminent domain deals with the most drastic interferences of the government with private property, interferences so severe that they are closely hemmed in by strict constitutional safeguards as to compensation. The problem of compensation is not merely an ethical one; it is also psychological and economic. Its psychological aspect is derived from the fact that the exercise of the power of eminent domain is *in invitum* and involves the disappointment of reasonable expectations. Its economic phase presents the question of the proper allocation of the costs of the condemnation.

"The concept of value represents the attempted answer to these varied and intricate problems. The concept is vague and it remains uncertain even after close analysis of the decisions of the courts. Like the standards of reasonableness that are common in other branches of the law, it derives a large measure of its usefulness from this very vagueness, for it enables the courts to adjust the rigid rules of law to the requirements of justice and indemnity in each particular case. We thus have an adjustment by men, rather than a determination by rote.

"But this adjustment is a blind groping, rather than an accurate and scientific determination according to precise and well-understood principles. The time is yet to come when the problem of compensation will be analyzed into its component parts and an adequate technique developed for dealing with all those vastly different aspects of the problems that are now being met by all-inclusive legal catchwords."

FREDERICK A. BOND, M.A.I.
Philadelphia, Pennsylvania.

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McMichael, S. L. McMICHAEL'S APPRAISING MANUAL. *New York, Prentice-Hall, Inc., 1937. 675 pp. $5.08.*

I wish every real estate appraiser, broker, and investor could read this interesting book. The book deals with the new techniques of appraising. Mr. McMichael has set forth the fundamentals of real estate values in a well-written, simple, and easily understandable text, a knowledge of which should prevent both Realtors and investors from again stepping into the pitfalls of the past.

This manual very thoroughly discusses the methods of approach and the data required in the appraisal of all kinds of properties. It begins by setting forth the misconceptions which have been proven to be utterly false and follows these in logical order with a complete discussion of the various elements to be considered in estimating value.

Some sixty pages are devoted to a discussion of depth and corner influence tables. It appears that these tables have been a hobby with which Mr. McMichael rather likes to play. He does, however, set forth the fact that these tables are not absolute guides to value but are helpful to the novice as a check upon his findings. As such, I agree that they may have some value and forgive Mr. McMichael for devoting so much space to them.

I find the manual most interesting and valuable in that it sets forth many data approaches and sets these forth in such a manner that the danger of overlooking some vital point in the compiling of data is less likely to occur if the manual is followed.

Chapters eight, nine, and ten, dealing with "Interest Tables and Their Uses," "Capitalizing Income into Value," and "Mathematical Treatment in Income," are exceptionally fine chapters for study and information. Liberal quotations from other sources are set forth in the text either to amplify the author's views or to modify them.

The text throughout is usually fair in its discussion and adheres to the "Rules of Professional Ethics of the American Institute of Real Estate Appraisers."

The sample appraisals of different types of property are well chosen. Valuable forms for assistance in gathering data are completely set forth.

The one hundred pages of appendix are chuckfull of charts and tables which, sometime or other, will be of great value. This portion in itself provides a handy reference guide for the appraiser.

I think Mr. McMichael is to be congratulated upon his splendid contribution to the appraiser's library. I believe this manual will eventually be found near at hand on the desk of every appraiser.

LEWIS C. SHOLES, M.A.I.

Omaha, Nebraska.

New Articles

"ACTUAL APPRAISAL REPORTS," by Alfred W. Palmer, M.A.I.

This is an actual valuation of a fifty-unit apartment building in an outlying section of Detroit. The building, which is four stories high, although ordinarily considered as a walk-up, is serviced with one electric automatic elevator. *National Real Estate Journal. June, 1937, pp. 53-54. $0.70.*

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"WHAT IS THE TRUE VALUE OF THE APARTMENT—GARAGE COMBINATION?" by Major E. H. Boeckh.

A new type of structure is seen in this attractive building which has an apartment above a two-car garage. A complete analysis is included to help you evaluate the variations from the usual type. *American Building Association News. June, 1937, pp. 344-345. $0.25.*

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"ETERNAL QUERY—WHAT'S IT WORTH?" by Reuben G. Carlson.

An appraiser must maintain a broad view of the real estate market in order to render efficient appraisal service. He alone discovers the proper relationship of all the facts he has found and is in the best position to interpret them to a future owner. The intelligent buyer would do well to place confidence in his expert advice. *Real Estate. May 29, 1937, p. 7. $0.30.*

"REAL ESTATE NEEDS NEW IDEAS—FRESH OUTLOOK," by John W. Schaefle.

"I am inclined to think that many real estate men are like the man on a race track, traveling in a fog, because they have so few ideas about where they are going and what they are going to accomplish." Without any fancy trimmings, this article gives a close-up of real estate men in general. *Real Estate. June 5, 1937, p. 8. $0.30.*

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"CORRELATION OF DATA AND THE VALUE ESTIMATE," by H. O. Walther, M.A.I.

A good appraisal report should be a thorough research problem. Analysis and intelligent interpretation of data are emphasized in order to avoid errors. *The Review of the Society of Residential Appraisers. May, 1937, pp. 3-5. $0.35.*

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"PROSPECTIVE RESIDENTIAL CONSTRUCTION," by Frank J. Hallauer.

Construction of new building units depends upon the need or demand. The population and changing social trends are some factors which determine it. Statistics and charts are included showing past supply and demand and the estimated future needs. *The Journal of Land and Public Utility Economics. February, 1937, pp. 14-19. $1.25.*

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New Members

ADMITTED TO THE GRADE OF MEMBER

LOTTIE L. CRAWFORD, SAN DIEGO, CALIFORNIA. Born, Hastings, Nebraska, March, 1897; active member and Past President, San Diego Realty Board; licensed real estate broker; fee appraiser for the H.O.L.C.; professional territory covers San Diego County; active in real estate appraisal work for ten years; valuations include appraisals of factories, residences, apartment property, oil stations, fruit ranches, etc.; graduate, University of Southern California extension course in Real Estate Law and Practice; graduate of elementary and advanced courses in Economics and Appraising under the direction of George L. Schmutz and Loring O. McCormick; completed Ivan A. Thorsen's Appraisal Course.

O. P. CURRAN, JR., CHICAGO, ILLINOIS. Born, Chicago, Illinois, September, 1870; President, O. P. Curran, Jr., Inc.; active member of Chicago Real Estate Board; professional territory covers Chicago and Evanston, Ill.; graduate, Chicago Manual Training School, 1888; Princeton University, 1892; Civil Engineer, 1893 to 1908; construction and building Public Works in U. S. and Canada, real estate business in Chicago since 1908; twenty years' experience in appraising real estate property, including leaseholds, apartments, residences, and business property; qualified in court in 1918 as an expert in real estate values; appraised for the Metropolitan Life Ins. Co. and the Chicago Title & Trust Co.; construction experience in railroads, irrigation systems, bridges, and all classes of buildings.

HARRY U. RIEPE, JR., BALTIMORE, MARYLAND. Born, Baltimore, Maryland, March, 1897; Vice President and Secretary in charge of sales of The Saratoga Building and Loan Corporation; professional territory covers Baltimore, Washington, and environs; Director, Saratoga Building and Land Corporation; Vice President, First Management Corporation; Director, Apartment House Owners Association of Baltimore, Md.; Treasurer, Apartment House Owners Association of Baltimore, Md.; partner of J. Holliday Riepe (organized November 28, 1927); firm holds active membership in the Real Estate Board of Baltimore, Md., Inc.; eight years' experience in the appraising of real property, including the values of residences, apartments, and stores; Baltimore Polytechnic Institute and Toulouse University, Toulouse, France.

WALTER CHANNING, BOSTON, MASSACHUSETTS. Born, Jamaica Plain, Massachusetts, in 1897; President, Treasurer, and Director, Walter Channing, Inc.; Vice President and Director of Boston Real Estate Exchange; Director, Boston Municipal Research Bureau; Vice President and Director, Channing Sanitarium; Trustee, Warren Institution for Savings; member of Advisory Board, Salvation Army; Vice President, Boston Management Corporation; member, National Economy League; professional territory covers New England; graduate of Harvard University; fifteen years' experience in the appraising of real property, including the valuation of homes, apartments, farms, college properties, airports, etc.; qualified in court as an expert on the value of various types of real estate.

CHARLES F. EVANS, NEWARK, NEW JERSEY. Born, Newark, New Jersey, December, 1904; employed as real estate appraiser by Edward J. Maier; member, Real Estate Board of Newark; professional territory covers northern New Jersey; four years' architectural drawing and design in Newark Evening High Schools, also Rutgers University, Courses—Principles of Real Estate Appraising and Modern Real Estate Problems; eight years' experience in appraising of real property, including residential, commercial, and industrial properties; licensed real estate salesman in New Jersey; qualified in court as an expert on the value of all types of property, 1935-1936; has appraised for Equitable Life Assurance Society of the U.S., United States Savings Bank, and Peoples National Bank and Trust Company of Belleville; experienced in building and construction of homes.

GEORGE GROTZ, JR., NEW YORK, NEW YORK. Born, New York City, 1891; appraiser, Mortgage Commission Servicing Corporation, a subsidiary of the Mortgage Commission of the State of New York; member, Brooklyn Real Estate Board; professional territory covers Kings, Queens, Nassau, and Suffolk Counties of the State of New York; author of technical papers; registered architect in the state of New York; studied structural engineering at Columbia and Real Estate Law at New York University; estimator and specification writer, 1913; inspector of building loans, Metropolitan Life Insurance Company, 1912; Clerk of the Works on $2,000,000 Sanatorium for Metropolitan Life Insurance Company, 1913 to 1915; architect, Lawyers Title and Guaranty Company, 1916; architect and appraiser for same company, 1917-1923; appraiser and loan officer, 1923 to 1933; appraiser and manager of Real Estate Department, 1933 to 1935; appraiser for Mortgage Commission, 1936; twenty years' experience in the appraisal of real property, including homes, apartments, stores, office buildings, and industrial properties; licensed real estate broker in the state of New York for more than ten years; qualified in court as expert on all classes of real estate; has appraised for the Lawyers Title & Guaranty Company and Lawyers Trust Company; experienced in all trades and all types of building and construction; experienced in residential sales.

GEORGE M. HALK, JR., NEW YORK, NEW YORK. Born, Hackensack, New Jersey, September, 1899; real estate appraiser for the Dry Dock Savings Institution of New York City; non-resident member of the Westchester County Real Estate Board; professional territory covers Bronx, Manhattan, and Westchester Counties; completed course in Land Economics and Real Estate conducted by Richard T. Ely in 1934; completed Real Estate Course at Columbia University, 1935; attended Real Estate Appraising Course at New York University given under the auspices of the New York Chapter of the Institute in the winter of 1936; eight years' experience in the appraisal of real property, including the valuation of homes and apartment buildings.

ALBERT A. MURRER, PITTSBURGH, PENNSYLVANIA. Born, Pittsburgh, Pennsylvania, August, 1900; President of Albert A. Murrer, Inc.; Real Estate Representative of Sun Oil Company; Western Pennsylvania Appraiser for Potter Title and Trust Company on special appraisals; member of Appraisal Committee, member of Board of Governors, and First Vice President of the Pittsburgh Real Estate Board; professional territory covers Allegheny County; lecturer; attended night school for over six years; lectured Appraisal Course for Pittsburgh Real Estate Board in the fall of 1936 and 1937 on "Appraisal Principles and Procedure"; fourteen years' experience in appraising real property, including homes, apartments, stores, office buildings, industrial properties, farms, and special purpose properties; licensed real estate broker in the state of Pennsylvania in 1929; qualified in court as an expert on the value of all types of property; has appraised for Franklin Savings and Trust Company, Potter Title and Trust Company, and Sewickley Valley Trust Company; experienced in the construction of homes; extensive residential sales experience.

ELDRIDGE C. THOMPSON, NEW YORK, NEW YORK. Born, Boston, Massachusetts, February, 1907; associated with Mutual Life Insurance Company, Real Estate Department; member, New York Chapter of the National Association of Real Estate Boards; professional territory covers Manhattan; attended Rutgers University, Montclair Academy, Professor Ely's course in Land Economics (one year) and Professor Alex Campbell's course on Real Property Law (two years); ten years' experience in the appraising of real property, including all types; has appraised for Mutual Life Insurance Company; some building and construction experience, also residential sales experience.

JOHN C. TREDWELL, NEW YORK, NEW YORK. Born, Brooklyn, New York, November, 1895; partner, E. A. Tredwell & Company; Treasurer, Twelve Warren Corporation; Assistant Manager, The Park Company; member, Real Estate Board of New York; professional territory covers New York City and metropolitan area; graduate of Wharton School of Commerce and Finance, University of Pennsylvania, with degree of B.S. in Economics; fifteen years' experience in appraising real property; licensed real estate broker in state of New York; has appraised for Union Dime Savings Bank and various estates, corporations, and individuals; experienced in residential sales.

EUGENE K. SHEFFIELD, AKRON, OHIO. Born, New York City, April, 1893; President, E. K. Sheffield Company; Secretary and Treasurer of the Overlook Allotment Company; Director of W. W. Bodager Loan Company; active member, Akron Real Estate Board; professional territory covers Summit, Portage, Medina, and Wayne Counties in Ohio; President of the Akron Real Estate Board, 1935; President of the Summit County Mortgage Association, 1934; loan correspondent for three building & loan associations; in the real estate and building business for twenty-five years; member of the Appraisal Committee of the Akron Real Estate Board for five years; twelve years' experience in real estate appraising, including the valuation of homes, apartments, stores, industrial property, hotels, churches, theatres, garages, and vacant lots; licensed real estate broker for fifteen years; qualified in court as an expert in the value of all types of real estate except farms; has appraised for the Irving Trust Company, New York; the First Central Trust Company, Akron; the Union Trust Company, Cleveland; and the Massillon Savings and Loan Company and Citizens Savings & Loan Company, Rittman, Ohio; has built approximately four hundred homes and ten apartments.

ARTHUR E. BURR, SEATTLE, WASHINGTON. Born, Hollowell, Maine, April, 1883; Director and Vice President Seattle Real Estate Board; Chairman, Appraisal Committee of Seattle Real Estate Board; Manager, Real Estate Department of Henry Broderick, Inc.; Director and Secretary, First Realty Corporation; President, Triangle Investment Company; active member, Seattle Real Estate Board; professional territory covers Seattle and surrounding area west of Cascade Mountains; received A.B. degree from Beloit College, 1905; in lumber and logging business, 1905-1907;

in mining business, 1907-1908; in general merchandise business and postmaster, Baring, Washington, 1908-1912; real estate business in Seattle since 1912; twenty-four years' experience in real property appraising, including apartment property, vacant property, residential property, and industrial property; licensed real estate broker in the state of Washington since 1912; qualified in court as expert on all kinds of real estate at various times since 1920; has appraised for Acacia Life Insurance Company, Peoples Bank & Trust Company, and other financial institutions; seven years' experience in residential sales.

RALPH H. DAVIS, SEATTLE, WASHINGTON. Born, Genoa, Nebraska, January, 1894; Mortgage Loan Supervisor of Equitable Life Assurance Society of the United States; member, Society of Residential Appraisers; professional territory covers Washington, Oregon, and part of Idaho; member, Seattle Real Estate Board; educational background includes high school, two years of Law at University of Idaho, course in banking by Bankers Association, law course by La Salle Extension University, higher accounting by International Correspondence Schools and the American Commerce Association, course in C.P.A. coaching, and course in mortgage and savings loan given by the United States Building and Loan League; eight years' experience in building and loan work, including five years as manager and three years as a savings and loan examiner for the State Department, also bank examiner; Past President, S. W. Savings & Loan League; Past President, Olympia Credit Association; Past President, Olympia Home Improvement Association; Past Assistant Treasurer, State Savings & Loan League; for the past four years, district supervisor, mortgage loans and real estate for the Equitable Life Assurance Society of the United States; twelve years' experience in the appraising of real property, including the valuation of homes, apartments, stores, office buildings, industrial property, farms, service stations, ice plants, churches, garages, clubs, etc.; qualified in court in 1929 as an expert on the value of farm and urban properties; five years' residential sales experience.

R. C. ERSKINE, SEATTLE, WASHINGTON. Born, Wheeling, West Virginia, August, 1876; President, R. C. Erskine & Company, a Washington corporation; charter member and past member of the Board of Directors, Seattle Mortgage Bankers Association; charter member, National Association of Real Estate Boards, having joined when membership was individual and not by Boards; charter member, Seattle Real Estate Board, organized in 1903; professional territory covers city of Seattle and other western Washington cities; author and lecturer; President, Seattle Real Estate Board in 1910, 1930, and 1931; over thirty years' experience in appraising real property; licensed real estate broker in the state of Washington; qualified in court as an expert on the value of all types of property; has appraised for Equitable Life Assurance Society, Acacia Life Insurance Company, and for various Seattle banks and trust companies; experience in industrial and other types of construction work; twenty-five years' experience in residential sales.

VINCENT D. MILLER, SEATTLE, WASHINGTON. Born, Lykens, Pennsylvania, December, 1885; President, Vincent D. Miller, Inc.; Vice President, Metropolitan Federal Savings & Loan Association; Director, Peoples Bank & Trust Company; member, Bondholders' Committee of Straus Properties; active member, Seattle Real Estate Board; professional territory covers city of Seattle and area west of Cascade Mountains; twenty-five years' experience in the appraisal of real property; licensed real estate broker in the state of Washington; qualified in court as an expert on the value of all types of real estate during the past twenty years; has appraised for Equitable Life Assurance Society of New York, New England Mutual of Boston, Northern Life Insurance Company, Seattle, Seattle Trust Company, Seattle Title Company, and other financial institutions; was instrumental in the erection of over twenty buildings; experience in residential sales since 1900.

DAVID T. YOUNG, SEATTLE, WASHINGTON. Born, Iowa, December, 1878; Director, Metropolitan Federal Savings and Loan; active member, Seattle Real Estate Board; member, Seattle Real Estate Board Appraisal Committee; professional territory covers Seattle and vicinity; thirty years' experience in the appraisal of real property; supervised revaluation of Seattle business district in 1924-25-26; represented Great Northern Railroad Company from 1924-1927, inclusive, in purchase of water front, terminal, and other properties to the extent of $750,000; associated in the purchase for the Great Northern Railroad of the entire shore line of Lake Chelan required for the now existing power project; has represented King County for more than twenty years in all matters involving land acquisition, etc.; has represented the city of Seattle for many years in condemnation actions; has also acted for State Land Commissioner, State Highway Department, and for United States District Attorney; within recent years has made several appraisals for United States Treasury Department of proposed sites in Seattle for Federal Court House and Post Office; appraised the land holdings of The Seattle Gas Company for Department of Public Works in 1933; during period of 1934-1935 appraised 1,214 parcels for Puget Sound Power and Light Company, including all types of land located in sixteen counties, total value of about $1,250,000; licensed real estate broker in the state of Washington; qualified in court on all types of real estate; has appraised for The Connecticut Mutual Life Insurance Company, The Union Central Life Insurance Company, Travelers Insurance Company, Seattle Trust and Savings Bank, Metropolitan Federal Savings and Loan, and Pacific Savings and Loan, San Francisco; experience in residential sales, 1904 to 1924.

F. W. BECK, WAUWATOSA, WISCONSIN. Born, Sweden, September, 1889; appraiser, Wisconsin State Banking Department; member, Milwaukee Board of Fire Underwriters; Class A membership for about twelve years in Milwaukee Real Estate Board; member, Valuation Committee, 1936-1937; professional territory covers state of Wisconsin; in general contracting business, 1922-1932; designed and built about 300 buildings, maintaining his own architectural department and mason, concrete, carpenter, and plaster crews under his own supervision; has done a great deal of cost estimating in connection with this work; more than eight years' experience in the appraisal of real property, including single-family homes, apartments, and stores; fourteen years' experience as a real estate broker; qualified in court as an expert on residential property in 1934; has appraised for the Badger State Bank, the Wauwatosa State Bank, and the Wisconsin State Banking Department.

ADMITTED TO ASSOCIATE MEMBER GRADE

ALFRED R. MARCKS, BROOKLYN, NEW YORK. Born, New York City, 1902; Mortgage Officer of The Dime Savings Bank of Brooklyn; professional territory covers Kings, Queens, and Nassau Counties in New York state; member of the Brooklyn Real Estate Board; author and lecturer; twelve years' experience in the appraisal of real property, including apartments and warehouses; licensed real estate broker in the state of New York, 1925-1936; qualified in court as an expert on the value of vacant land in 1934.

RAYMOND S. DEMOTT, BRONXVILLE, NEW YORK. Born, Cleveland, Ohio, June, 1897; President, DeMott Construction Company, Inc.; licensed professional engineer; member, New York Federal Saving & Loan Association; Vice-President, Westchester Better Homes Exposition, Inc.; member, Associated General Contractors of America; member, Westchester Construction Employers League, Inc.; member, Westchester County Real Estate Board; professional territory covers Westchester County and some of Metropolitan New York; lecturer and author; graduate of the University of Michigan; five years' experience in the appraisal of real property, including the valuation of residential properties and income properties; licensed real estate broker in the state of New York since 1928; has appraised for Gramatan National Bank and the First Federal and New York Federal Savings and Loan Associations; considerable experience in residential construction as general contractor, properties ranging in value from $18,000 to $200,000.

◆

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(See pages 299 to 303, Roster of Members, for addresses.)

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John A. Linnett, Newark, N. J.
Ivan A. Thorson, Los Angeles, Calif.

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(Figures in parenthesis following names indicate the Certificate Number issued to each Member and the order of election.)

ALABAMA

Birmingham
John D. Chichester (228) ....708 Jackson Bldg.
Frank B. Clark (261) ....408 N. 21st St.
Hill Ferguson (242)........ ....221 N. 21st St.
Harold M. Henderson (215) ....2115 1st Ave.

ARIZONA

Phoenix
Leonard M. Cowley (528)...............15 W. Monroe St.

ARKANSAS

Little Rock
Lawrence Witherspoon (531)..........508 Donaghey Bldg.

CALIFORNIA

Burlingame
Nathaniel B. Bender (347)............1422 Bellevue Ave.
Eagle Rock
Cloice D. Carll (410) ....5876 Vincent Ave.
Glendale
Peter Hanson (11) ....221 Arden Ave.
Long Beach
J. Mortimer Clark (50)..................262 Lindero Ave.
J. C. Hoffman (71)..............307 F. & M. Bank Bldg.
A. G. Maspero (51).......................409 Security Bldg.
T. F. Merrick (27) ....Heartwell. Bldg.
Los Angeles
Raymond F. Ahern (424)............1939 N. Hobart Blvd
Ralph Brashear (36).......................4157 W. 5th St.
David W. Bush (197).............616 O. T. Johnson Bldg.
George H. Coffin, Jr. (216)...408 Hollywood Security Bldg.
Joseph P. Deasy (377)..................771 Hyperion Ave.
Ayers J. duBois (107)................7079 Hollywood Blvd.
Arthur L. Layden (104)............437 N. Windsor Blvd.
Nathan Libott (84)..................6253 Hollywood Blvd.
Stanley L. McMichael (25)..........6785 Whitley Terrace
Thurston H. Ross (427)..............3465 Knollcrest Ave.
John W. Salmon (208).....................2912 Brighton Ave.
D. D. Sayer, Jr. (278).........................4100 E. 9th St.
George L. Schmutz (192).........8703 Santa Monica Blvd.
Charles B. Shattuck (110)..........2510 S. Vermont Ave.
Ivan A. Thorson (199)..............500 Corporation Bldg.
Fred E. Vincent (212)....................3440 Winslow Drive
Richard C. Willis (321)............446 South Van Ness St.
Oakland
W. S. Guilford (46).Athens Athletic Club, 12th & Clay Sts.
Harold W. Jewett (527)..................1819 Franklin St.
James G. Stafford (54)....................5820 Presley Way
Pasadena
Louis M. Pratt (411) ....164 N. Hudson Ave.
Sacramento
Mark Cheesman (189) ....2964 Govan Way
A. J. Delano (126)................. ....809 J St.
Thomas G. Mapel (367)..............................809 J St.
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Lottie L. Crawford (568)...............923 Seventh Ave.
Victor R. Lundy (582).....................923 Seventh Ave.
San Francisco
W. G. Harris (430)...................315 Montgomery St.
George I. Noyes (295)........................821 Market St.
Edwin G. Wendland (342).......821 Market St., Room 562
San Gabriel
Frank C. Wood, Jr. (326)...............420 Segovia Ave.
Southgate
Louis R. Ardouin (205)...................2931 Willow Place
Wilmington
Thomas Francis Mason (151)......................Box 122

COLORADO

Denver
Arthur D. Wall (519)...................813 Majestic Bldg.

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G. LeRoy Kemp (533)..............179 Boston Post Road
Forestville
Thomas N. Ryan (554)........................Pleasant Ave.
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Joseph P. Kennedy (24).......................720 Main St.
Aubrey Maddock (507).............................50 State St.
H. Martin Tenney (534)......................140 Garden St.
New Britain
William G. Dunn (535)...........................272 Main St.
New Haven
George B. Horan (275)...........................151 Court St.
Wm. M. Hotchkiss (436)......................205 Church St.
Charles T. Lincoln (265)......................205 Church St.
Stamford
Richard W. Fitch (231)...........................292 Main St.
Waterbury
John M. Hutchinson (500)..............195 North Main St.

DISTRICT OF COLUMBIA

Washington
Harold E. Doyle (82)....................738 15th St., N. W.
Joseph A. Herbert, Jr. (69).............515 E. Capitol St.
A. C. Houghton (72)...................909 15th St., N. W.
Morton J. Luchs (178)...................1505 H St., N. W.
F. Eliot Middleton (280)..................Investment Bldg.
Charles H. Tompkins (337).........1630 Connecticut Ave.
Curtis Walker (196)................................Tower Bldg.

Members in Government Service:

Frederick M. Babcock (435)........Federal Housing Adm.
Wm. D. Burkheimer (309) ....
......................(FHA) 3726 Connecticut Ave., N. W.
Fred L. Chapman (411)............Federal Housing Adm.
Warren S. Dean (313)................(HOLC) 1619 R St.
Leonard Downie (296)...........................HOLC Bldg.
Ayers J. duBois (107).............Federal Housing Adm.
J. W. Graham (83)...........(FHA) Vermont and K St.
David L. Montonna (416)...............................F. H. A.
John J. Savage (536).........6th Floor, F.H.A. Building

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Harry J. Wood (187).............................1112 1st St.
Jacksonville
V. M. Covington (48)..................1316 Graham Bldg.
Louis R. Fendig (44)......................23 Buckman Bldg.
Myron L. Howard (73)..............516 Professional Bldg.
J. Alvin Register (4)......................114 Graham Bldg.
Bainbridge Richardson (59)...........117 W. Forsyth St.
Walter D. Shelly (217)..................414 Greenleaf Bldg.
L. K. Tucker, Jr. (150)...............319 W. Forsyth St.
Lakeland
Ernest Stephen Allsopp (517).............Marble Arcade
John L. Wright (243)....................117 S. Tenn. Ave.
Miami
Hollis Bush (98)...........................P. O. Box 1030
Kenneth S. Keyes (115)...................17 W. Flagler St.
Adrian McCune (74)....................1212 Security Bldg.
D. Earl Wilson (80)....................1212 Security Bldg.
Orlando
George F. Brass (160)........................P. O. Box 1052
Harold V. Condict (161)................................Box 1052
C. W. Rex (42).. Box 293
J. C. Stewart (166)................112 N. Orange Ave.
Sarasota
Fred L. Palmer (127)..........................482 Main St.
St. Petersburg
John B. Green (308)..............................11 4th St., N.
Warren P. Hunnicutt (338)...............302 Central Ave.
Tampa
Charles P. Glover (139).......811 Citrus Exchange Bldg.
Vero Beach
Frank R. Jewett (148)...........................P. O. Box Q
West Palm Beach
Frank J. Anderson (223)...............611 Harvey Bldg.

GEORGIA

Atlanta
Bryan M. Grant (147)........................206 Grant Bldg.
Robert R. Otis (256)............................15 Auburn Ave.
Geo. P. Williams (387).......... Regional Office, H. O. L. C.

TERRITORY OF HAWAII

Honolulu

Charles J. Pietsch (417)....................927 Fort St.

ILLINOIS

Calumet City

George N. Becker (245)....................188 Pulaski Rd.

Chicago

Graham Aldis (365)....................53 W. Jackson Blvd.
Louis B. Beardslee (405)..............100 N. LaSalle St.
George Becker (518)....................11 S. LaSalle St.
Kenneth Calhoun Brown (210)......110 S. Dearborn St.
O. P. Curran, Jr. (569)....................4545 Broadway
Harry S. Cutmore (194)..........1411 1st Natl. Bk. Bldg.
Dominick Dunn (370)....................1330 Morse Ave.
Newton C. Farr (400)....................140 S. Dearborn St.
Fred F. Gardner (530)....................134 S. LaSalle St.
Harry Goldstine (350)....................134 N. LaSalle St.
Earl George Gubbins (383)............6015 Lincoln Ave.
Arthur B. Hall (403)....................407 S. Dearborn St.
John P. Hooker (52)....................140 S. Dearborn St.
A. K. Hornof (173)............1411 1st Natl. Bank Bldg.
Ward T. Huston (209)..............110 S. Dearborn St.
Isaac Keim (324)....................2526 S. Wabash Ave.
Arthur Kruggel (341)....................4865 Broadway
Walter R. Kuehnle (124)............140 S. Dearborn St.
J. Alton Lauren (442)....................22 W. Monroe St.
Mark Levy (9)....................22 W. Monroe St.
Paul C. Loeber (399)............111 W. Washington St.
Ernest H. Lyons (195)....................120 S. LaSalle St.
William C. McLennan (414)....6675 Northwest Highway
Francis E. Manierre (402)............5 S. Wabash Ave.
Orlo O. Montague (514)........1019 First Natl. Bk. Bldg.
Donald T. Morrison (382)........100 North LaSalle St
William E. Mosby (297)........8032 Cottage Grove Ave.
Hyde W. Perce (406)....................40 N. Dearborn St.
Lester W. Porter (407)..............231 S. LaSalle St.
Geo. R. Quin (191)....................36 S. State St.
Gilbert H. Scribner (401)............1st Natl. Bk. Bldg
Henry George Slavik (301)............10 S. LaSalle St.
John Milton Trainer (404)............30 N. Michigan Ave.
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Herman O. Walther (362)..........111 S. Dearborn St.
J. Soule Warterfield (120)..............8 S. Dearborn St.
Albert H. Wetten (408)............141 W. Jackson Blvd.

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Ralph V. Field (168)........203 Bk. of Galesburg Bldg.

Joliet

William W. Mollan (288)..............405 D'Arcy Bldg.

Peoria

James H. Finnegan (428).........415 Peoria Life Bldg.

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Oscar Soderquist (125)....................22 Maple Ave.

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Fort Wayne

Claude L. Baker (129)....................R. F. D. No. 2

Gary

Charles D. Davidson (244)....................504 Broadway
J. R. Davidson (123)....................504 Broadway

Hammond

Samuel C. Ennis (203)....................1st Trust Bldg.

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John W. Roberts (448)....................428 Illinois Bldg.

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Richard A. Muessel (537)..............205 Income Bldg.

IOWA

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Arthur S. Kirk (188)....................900 Grand Ave.

Sioux City

Willard L. Frost (21)............Security Bank Bldg.

KANSAS

Hutchinson

J. C. McNaghten (116)..............1st Natl. Bk. Bldg.

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Wichita

Ralph D. Nixon (555)..................144 N. Rutan Ave.

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Paul F. Semonin, Sr. (359).............321 Starks Bldg.

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Max J. Derbes (560)....................823 Perdido St.
E. Holland Johnson (558)..................811 Perdido St.
J. Burrows Johnson (559).............339 Carondelet St.

Shreveport

T. S. Neal (224)..............330 Ricou-Brewster Bldg.
R. S. Whitten (351)....................210 Milam St.

MARYLAND

Baltimore

Oregon Milton Dennis (132)....211 New Amsterdam Bldg.
W. E. Ferguson (47)....................100 E. Pleasant St.
Harry E. Gilbert (18)....................2 E. Lexington St.
Albert C. Hofrichter (162)..............2 E. Lexington St.
John E. McGovern (316).........H.O.L.C., Equitable Bldg.
Harry U. Riepe, Jr. (570)............25 East Fayette St.
Chas. H. Steffey (88)....................336 N. Charles St.
Carroll Wright (314)...............Baltimore Trust Bldg.

MASSACHUSETTS

Boston

W. H. Ballard (41)....................45 Milk St.
Arthur B. Brooks (509)................40 Central Street
Edwin Deering Brooks (510)................18 Tremont St.
Edward F. Cassell (122)................18 Tremont St.
Walter Channing (571)....................50 Congress St
George L. DeBlois (505)...........11 Pemberton Square
Norman W. Kenny (10)....................82 Devonshire St.
John C. Kiley (397)....................45 Bromfield St.
Arthur N. Maddison (504)............11 Pemberton Square
Robert C. Nordblom (336)....................18 Oliver St.
George S. Parker (502)....................87 Milk St
Stephen W. Sleeper (508)....................81 Milk St.
Robert S. Wayland (506)....................10 State St.
Parker Webb (538)....................24 Milk St.

Brockton

Charles H. McKenney, Jr. (423)............106 Maine St.

Fall River

J. Frederick Beckett (167)..............49 Purchase St.
Myer Markell (165)....................160 Bank St
Everett N. Slade (53)....................57 N. Main St.

Lowell

John C. Percival (233) ....36 John St.

Springfield

Henry M. Clark (287)....................100 Broadway
Bion T. Wheeler (339)....................1562 Main St.

Worcester

Francis S. Bailey (524)....................2 Foster St.
F. Everett Cole (556)....................5 Pleasant St.
Charles A. Kabley (501)....................340 Main St.
Maurice F. Reidy (8)....................2 Foster St.

MICHIGAN

Detroit

Judson Bradway (392)................533 Majestic Bldg.
Matthew Carey (389).........2149 Union Guardian Bldg.
George W. Drennan (358)............617 Penobscot Bldg.
Guy S. Greene (394)....................300 Lafayette Blvd.
Donald D. James (539)..................700 Penobscot Bldg.
Henry N. Johnson (390)..............300 Penobscot Bldg.
Albert D. MacRae (540)............Union Guardian Bldg.
Alfred W. Palmer (312)......1920 Union Guardian Bldg.
Edmund T. Paterson (385)...........3050 E. Grand Blvd.
Leonard P. Reaume (393)..................2150 Buhl Bldg.
George C. Sexauer (395)..................2150 Buhl Bldg.
William W. Tanney (434).............9061 W. Outer Drive
Clarence S. Vaughn (422)..2103 First National Bank Bldg.
Carl S. Wells (391)....................2706 Eaton Tower

Grand Rapids

J. G. Lloyd Alexander (246)..........616 Murray Bldg.
Isaac Blandford (234)..........105 Federal Square Bldg.
Leon T. Closterhouse (247)..............................
..........................American Home Security Bank
John Garfield Emery (304)........400 Central Bank Bldg.
Harry J. Fuller (235)...........The Michigan Trust Co.
Walter S. Palmer (193)........104 Federal Square Bldg.
Arent Van Stensel (248)...1006 G. R. Savings Bank Bldg.
Charles H. Warden (229)........535 Michigan Trust Bldg.

Jackson
Henry H. Lammers (557)..............508 Dwight Bldg.
Lansing
Edward G. Hacker (291)..........219 W. Washtenaw St.
Pontiac
Paul A. Kern (134)....................31 Oakland Ave.

MINNESOTA

Duluth
Richard W. Northup (379)..............17 Phoenix Bldg.
Minneapolis
Fred L. Chapman (411)......................115 S. 5th St.
Norman L. Newhall (32).............519 Marquette Ave.
Edwin L. Somerville (30).....519 Metropolitan Bank Bldg.
J. Frederick Sutherland (331)..........................
..........................1477 Northwestern Bk. Bldg.

MISSISSIPPI

Jackson
J. O. Manning (299)....................3012 N. State St.

MISSOURI

Clayton
Gunther Meier (319).......................18 N. Meramec
Joplin
Rolla E. Stephens (264)..................711 Virginia Ave.
Kansas City
George M. Bliss (360).......................17 E. 10th St.
C. F. Curry (345)......................921 Baltimore Ave.
Herbert B. Patt (553)...............417 R. A. Long Bldg.
E. F. Pierson (289)..................311 Commerce Bldg.
St. Louis
W. C. Bernard (91).........................317 N. 11th St.
William W. Butts (93)..................803 Chestnut St.
Herbert O. Byrd (302)..................818 Chestnut St.
Charles J. Daly (94)....................801 Chestnut St.
Otto J. Dickmann (225)..................623 Chestnut St.
Chester A. Dougherty (249)..............109 N. 7th St.
J. Gregory Driscoll (528)..................1501 Locust St.
John H. Farish (201)......................713 Chestnut St.
Grover Godwin (418)...............212 New Federal Bldg.
Joseph W. Hannauer (15) ....811 Chestnut St.
Alfred B. Kissack (525)......................915 Olive St.
Curt C. Mack (449).......................714 Chestnut St.
Monroe H. Rodemyer (218)................109 N. 8th St.
N. S. Wood (131).........................709 Chestnut St.

NEBRASKA

Lincoln
C. C. Kimball (381)......................228 Stuart Bldg.
Omaha
C. D. Glover (67)...................913 City Natl. Bldg.
Lewis C. Sholes (23)..........U. S. National Bank Bldg.
Clinton B. Stuht (33)................Aquila Court Bldg.

NEW JERSEY

Atlantic City
Maurice A. Kelley (325).............20 S. Tennessee Ave.
Butler
Frank B. Fay, Jr. (171)......................Fayson Lake
Camden
Ralph D. Baker (60).........................924 Broadway
W. W. Chalmers (63)..................4th & Federal Sts.
J. William Markeim (86)...............4th & Federal Sts.
Abraham J. Rosenfeld (213)............114 N. Broadway
Leon E. Todd (340)...................2623 Westfield Ave.
Philip Zinman (95)............................333 Arch St.
East Orange
Frank H. Taylor (6).........................520 Main St.
Harry A. Taylor (108).......................520 Main St.
Elizabeth
John K. Leeds (99).....................286 N. Broad St.
B. B. Miller (58)..............................215 Broad St.
Burton Thompson (43).......................18 W. Jersey
Max Tieger (112).............................. 207 Broad St.
Hackensack
Isidoro Quintana (78)................Court House Square
Jersey City
Percy A. Gaddis (22)..........30 Journal Square Bldg.
D. E. C. Somers (175)...................700 Bergen Ave.
R. E. Thompson (419)......Centl. R. R. of N. J. Term.
Linden
John Fedor (65).......................540 S. Wood Ave.
Maplewood
Gilbert N. Swett (561).......................Depot Plaza
Newark
Murray Apfelbaum (38)......................786 Broad St.
John J. Berry (56)............................982 Broad St.
George E. Dugan (236).............18 Washington Place
Charles F. Evans (572)....................187 Market St.
Jos. L. Feibleman (66)....................17 Academy St.
George Goldstein (413)......................972 Broad St.
Franklin Hannoch (49)......................14 Park Place
Louis Herman (70)...........................60 Park Place
Charles Frederick Kraemer (366)...........776 Broad St.
Rudolph Kruger (516)............................11 Hill St.
John A. Linnett (85)...................29 Elizabeth Ave.
E. J. Maier (75)...............................187 Market St.
J. K. Powell (77)............................1060 Broad St.
Joel L. Schlesinger (87)......................31 Clinton St.
Harry J. Stevens (200)...................478 Central Ave.
New Brunswick
Jas. A. O'Connell (186)....................392 George St.
Newton
A. N. Lockwood (433)............................17 Main St.
Ocean City
Elmer Jackson Pearl (330)................801 Ocean Ave.
Paterson
Joseph R. Lambert (443).................20-22 Church St.
Perth Amboy
Morris Goldfarb (109)...................265 Madison Ave.
Plainfield
William G. McDowell (446)................152 North Ave.
Ridgewood
Frederick A. Tetor (364)...........1 E. Ridgewood Ave.
Samuel S. Walstrum (106)......................Ridgewood
Rutherford
Charles A. Van Winkle (113)..........1 & 2 Station Sq.
Theodore Van Winkle (117)..................1 Station Sq.

NEW YORK

Buffalo
A. P. Allingham (3).......................68 Niagara St.
P. V. Bowen (141).......................1006 Ellicott Sq.
Walter W. Cohn (81)..........................155 Pearl St.
Cuthbert E. Reeves (19)..............Liberty Bank Bldg.
Mechanicville
Franz H. Moak (40).........................37 N. Main St.

Metropolitan New York

Bronx

Herman A. Acker (279)...........318 E. Kingsbridge Rd.
Amedeo Giordano (515)............2488 Grand Concourse
George Grotz, Jr. (573)......................346 Broadway
George M. Hal, Jr. (582)..............742 Lexington Ave.
Samuel E. McRickard (292)............400 E. Fordham Rd.
Eldridge C. Thompson (583).................34 Nassau St.
John C. Tredwell (574).........................41 Park Row

Brooklyn

Stephen F. Barrera (133)................191 Joralemon St.
George Baur (170)......................2609 Clarendon Rd.
Joseph William Catharine (503)........187 Montague St.
James P. Clark (550)......................478 Graham Ave.
James B. Fisher (57)........................160 Remsen St.
George H. Gray (17).......................310 Ashland Place
Bernard F. Hogan (29)............................451 5th Ave.
Arthur J. Horton (183)..................1214 Flatbush Ave.
George S. Horton (184)......................59 Lafayette Ave.
Frank M. McCurdy (39)......................158 Remsen St.
James F. Matthews (76).................186 Joralemon St.
M. C. O'Brien (190)......................798 Nostrand Ave.
Charles Partridge (92)....................397 Flatbush Ave.
Lewis H. Pounds (128).............................32 Court St.
Fenwick B. Small (31)....................1124 Myrtle Ave.
R. W. Walden (89)...............................94 Clinton St.

Manhattan

Robert H. Armstrong (562)....... .....485 Madison Ave.
Edward J. Crawford (373)......................225 Broadway
Sam W. Florence (206)..............2700 Woolworth Bldg.
Howard Geoghegan (512)...................51 Chambers St.
Dalton Granger De Witt (315).................22 W. 48th St.
A. N. Gitterman (45)..............................45 E. 49th St.
Bracton Goldstone (68)..........................10 E. 40th St.
Frank D. Hall (159)...................................393 7th Ave.
John R. Hoyt (290).................................17 E. 42nd St.
Robert Huntley (214)...............................67 Liberty St.
S. E. Kazdin (269)......................................70 Pine St.

John J. McCormick (445)..................51 Chambers St.
Clarence C. Merritt (357)..................50 E. 42nd St.
Charles W. Morrison (270)..............270 Madison Ave.
James R. Murphy (437)......................217 Broadway
Henry Musch, Jr. (157)......330 W. 42nd St., c/o HOLC
Charles A. Nehring (521)..........1441 St. Nicholas Ave.
Charles J. Pladwell (542)..................522 Fifth Ave.
Irving I. Rosenbaum (179)..................384 Broadway
I. Lincoln Seide (526)......................220 Broadway
Maurice R. Spear (543)....................225 Fifth Ave.
David Vogel (368)..........................150 Broadway

Nassau County

Richard T. Childs (273)...........222 Front St., Mineola

Queens County

Armand Brunswick (327)........90-26 161st St., Jamaica
William F. MacDermott (198)...89-70 162nd St., Jamaica
Axel J. Swenson (272)...41-27 29th St., Long Island City

Westchester County

Robert A. Anderson (259).......34 E. 1st St., Mt. Vernon
Stephen L. Angell (220)........30 E. Parkway, Scarsdale
Vernon N. Bailey (322).......175 Main St., White Plains
Edward C. Heald (222)........20 S. Broadway, Yonkers
Edward H. Hufnagel (250)....10 Fourth Ave., Mt. Vernon
Harry K. Keller (563) ....6 Letitia Road, Tuckahoe
Albert W. Lockyer (294)......Depot Plaza, White Plains
Paul Wegener (90) ....144 South Broadway, Yonkers
Edward M. West (305)......1 Martine Ave., White Plains

Rochester

Abraham Berghash (219).............130 Clinton Ave., S.

Schenectady

Wm. Garner Bee (415)......................278 State St.

Syracuse

James H. Dawley (333)................121 E. Genesee St.
Edward Eagan (271).........204 Starrett-Syracuse Bldg.

NORTH CAROLINA

Asheville

B. H. Sumner (332)..............................Asheville

Charlotte

S. T. Henderson (20).......................P. O. Box 1128

OHIO

Akron

Charles S. Jenkins (564)................659 Schiller Ave.
Jonn C. Kyle (102)................520 S. Firestone Blvd.
A. R. Ritzman (544)........................1099 S. Main St.
Eugene K. Sheffield (575)........651 Central Tower Bldg.
Fred E. Smith (298)......608 Broad Blvd., Cuyahoga Falls
W. F. Voges (105)........................1109 S. Main St.

Alliance

L. D. Scranton (100)........................341 E. Main St.

Canton

Mark Hambleton (146)....................417 Mellett Bldg.
A. Ray Walters (439)....................524 Renkert Bldg.

Cincinnati

Henry B. Bunker (545)........S. E. Cor. 4th & Vine Sts.
Howard R. Burgess (176)..................104 Neave Bldg.
Fred Droege, Jr. (154)......410 First National Bank Bldg.
J. George Ege (335)........................3040 Urwiler Ave.
James W. Farrell (149)...........S. W. Cor. 5th & Main
John H. Frey (156)..............7 Navara Apts., Sta. D
James J. Grogan (180)......S. W. Cor. 5th & Main Sts.
Albert J. Mayer (204)...........1515 1st Natl. Bk. Bldg.
P. Lincoln Mitchell (181).....S. W. Cor. 5th & Main Sts.
C. Stott Noble (202)............................3428 Stettinius
Michael J. O'Bryne (429).................1825 Kinney Ave.
Russel Price (152).............S. W. Cor. 5th & Main Sts.
Walter S. Schmidt (111)......S. W. Cor. 5th & Main Sts.
Lewis R. Smith (139)...................409 American Bldg.
John B. Spilker (155)......410 First National Bank Bldg.
L. F. Steele (310)...........................209 W. 7th St.

Cleveland

Talmage D. Auble (262)..................15509 Madison Ave.
Robert F. Berwald (300)............1220 Williamson Bldg.
Ben B. Beyer (34)...................1425 Williamson Bldg.
James G. Bingham (328)............1227 Williamson Bldg.
Raymond T. Cragin (282)......825 Natl. City Bk. Bldg.
W. J. Crawford, Jr. (323).............720 Cuyahoga Bldg.
Victor J. Free (431)...................215 Union Trust Bldg.
Walter R. Granger (285)............310 Hippodrome Bldg.
Joseph J. Haas (164)......................200 Marshall Bldg.
Joseph B. Hall (2).........................5700 Truscon Ave.
Joseph Laronge (108).................600 Union Trust Bldg.
Edwin H. McIntosh (283)....325 Society for Savings Bldg.
Warren L. Morris (251).........420 Natl. City Bk. Bldg.
E. L. Ostendorf (14)...........610 Natl. City Bank Bldg.
Carl A. Palmer (286)..........................850 Euclid Ave.
Max J. Rudolph (281)......................1105 Chester Ave.
Carlton Schultz (37)..................1228 Schofield Bldg.
Alexander S. Taylor (142)...........1930 Union Tr. Bldg.
V. C. Tayler, II (153)..............1930 Union Trust Bldg.
Wm. J. Van Aken (284)......................1715 Euclid Ave.

Columbus

Preston Cooke (551)........................8 East Broad St.
Charles F. Johnson (412).....................8 E. Long St.

Dayton

Rufus Lisle (438) ....Winters Bank Bldg.

Geneva

J. Earl Miller (267)..............................Miller Bldg.

Massillon

Charles N. Hostetter (329)...........716 Lincoln Way, E.

Springfield

H. S. Kissell (5)......................927 1st Natl. Bk. Bldg.

Toledo

Claude A. Campbell (211)..............707 Ohio Bank Bldg.
Edmund T. Collins (522).................708 Jefferson Ave.
Geo. P. Crosby (252)......................413 Madison Ave.
Howard Etchen (136)...........................725 Adams St.
Donald F. Hiett (396)....................622 Jefferson Ave.
John R. Schackne (529)......507 Produce Exchange Bldg.

OKLAHOMA

Tulsa

J. M. Allen (546)..........................708 Beacon Bldg.
Clyde A. King (432)......................310 Beacon Bldg.

OREGON

Portland

Norman B. Plummer (447)......919 American Bank Bldg.

PENNSYLVANIA

Bethlehem

Wm. C. Bader (163)...............214 Odd Fellows Bldg.

Erie

Carl G. Wright (361)..............204 Marine Bank Bldg.

Harrisburg

Evan J. Miller (148)..........................213 Locust St.

Lancaster

Harry W. Butts (114)......................24 E. Orange St.

Lansdowne

W. Raymond Evans (118)...........19 N. Lansdowne Ave.

Lewiston

E. Dale Fisher (520)..........................136 Valley St.

Philadelphia

Philip N. Arnold (174)......................123 S. Broad St.
Boyd T. Barnard (237)...............Lincoln Liberty Bldg.
Frederick A. Bond (380)..............5438 Baltimore Ave.
E. L. Carlson (62)......The Parkway at Fairmount Ave.
C. Harris Colehower (145)...............5942 Chestnut St.
Frank P. Felton, Jr. (268).....914 Lincoln Liberty Bldg.
Lionel Friedmann (565).....N.E. Cor. 15th & Locust Sts.
Samuel T. Hall (257)...........................1500 Locust St.
Roy A. Heymann (362)......................213 S. Broad St.
C. Harry Johnson (238)..........................Packard Bldg.
S. Craig Kane, Jr. (253)..............511 Land Title Bldg.
Philip W. Kniskern (1)......................1614 Walnut St.
J. Howard McLaughlin (372)..........5512 Florence Ave.
Frank H. Massey (549).......S. E. Cor. 13th & Green Sts.
Maurice R. Massey (276)....S. E. Cor. 13th & Green Sts.
William I. Mirkil (226)......................1500 Walnut St.
Robert J. Nash (254)...........................1214 Locust St.
Glyndon Priestman (420)..................18 W. Chelten St.
Richard J. Seltzer (255)...................15th & Locust Sts.
J. Willison Smith (239)......................100 S. Broad St.
Martin Stotz (55)...........................514 Land Title Bldg.
Ambrose J. Winder (207)...................1420 Walnut St.

Pittsburgh

J. W. Cree, Jr. (13).............................211 Fourth Ave.
E. Herbert Gilg (552)................6605 Ridgeville Street
Albert A. Murrer (584)........................614 Plaza Bldg.

Scranton

C. G. Chappell (376)........................Bliss Davis Bldg.

Wilkes Barre

C. A. Leighton (135)........Deposit & Savings Bk. Bldg.
Edward L. Lewith (227)............428 Miners Bk. Bldg.

RHODE ISLAND

Providence

Hal Forrester Coombs (172)...............211 Waterman St.
James Devine (130).........801 New Industrial Tr. Bldg.
Richard A. Hurley (513)........728 Hospital Trust Bldg.

TENNESSEE

Memphis
Elbert A. Cheek (547)..........1303 First Natl. Bk. Bldg.
Percy Galbreath (421)..........Columbian Mutual Tower
George W. Person (320)........503 Manhattan Bk. Bldg.
W. H. Prince (374)...............Parkview Hotel Apts.

Nashville
J. W. Denis (140)..........................535 Church St.
J. W. Graham (83)..........................930 Kirkwood

TEXAS

Amarillo
Robert Ricks (566)..........................Bivins Bldg.

Beaumont
J. S. Edwards (444)....................San Jacinto Bldg.

Dallas
Ballard Burgher (398).......617 Republic Natl. Bk. Bldg.
Henry S. Miller (277)...........405 Southland Life Bldg.
Lawrence Miller (386)...............2729 South Boulevard
John W. Pat Murphy (384)..........1420 Commerce St.

Fort Worth
Meredith R. Carb (354)..........403 First Natl. Bk. Bldg.

Houston
W. G. Burchfield (274)..........803 2nd Natl. Bk. Bldg.
L. A. Casey (353)..........................Esperson Bldg.

San Antonio
Paul W. Adams (355)..........Builders Exchange Bldg.
A. H. Cadwallader, Jr. (352)..................Moore Bldg.
Claris M. Elmore (356)...................1031 Navarro St.
R. W. Patton (317)......................704 Travis Bldg.

UTAH

Salt Lake City
Werner Kiepe (567)................139 S. Second St., E.

VIRGINIA

Alexandria
J. Arthur Younger (311)....................Belle Haven

Newport News
Emanuel E. Falk (548)................24th & West Ave.

Richmond
John W. Bates (240)......................723 E. Main St.
Henry S. Raab (260)......................710 E. Main St.
John Sloan (241)...........................18 N. 8th St.
J. Guthrie Smith (144)...................329 Clovelly Rd.
Morton G. Thalhimer (221)..............1013 E. Main St.

WASHINGTON

Seattle
Charles P. Burnett (378)........................Box 1860
Arthur E. Burr (576)....................623 Second Ave.
Ralph H. Davis (577)..................400 Skinner Bldg.
Leonard Downie (296)...........................Seattle
Wm. A. Eastman (307)................414 University St.
R. C. Erskine (578)..............2201 Northern Life Tower
Walter G. McLean (346)...................1108 Third Ave.
J. C. McQuigg (344)...................1736 Belmont Ave.
Vincent D. Miller (579)..................337 Henry Bldg.
A. C. Newell (348)..............448 Dexter Horton Bldg.
Ben J. Smith (343)................5252 16th Ave., N. E.
J. H. Sparkman (349)......................1108 3rd Ave.
Cecil S. Van Voris (369).....(FHA) 1817 Exchange Bldg.
David T. Young (580)..................511 Marion Bldg.

Walla Walla
C. C. Conner (263)...................First National Bank

WEST VIRGINIA

Charleston
Charles Uhrig (79)....................................
...................Box 1019, Charleston Natl. Bk. Bldg.

Clarksburg
Lyle B. Hornor (375)...........................Goff Bldg.

Huntington
H. E. Pilcher (371)..........................926 6th Ave.

WISCONSIN

Madison
Henry H. Bush (61)..........................311 State St.

Milwaukee
K. Lee Hyder (185)..................525 E. Michigan St.

ONTARIO, CANADA

London
Bert Weir (188)...........................156½ Dundas St.

Toronto
Cyril R. De Mara (12)..........................372 Bay St.
Frank McLaughlin (7)....................34 King St., W.

Wauwatosa
Fritz W. Beck (581)..................1708 North 72nd St.

Associate Members

CONNECTICUT

Stamford
Robert S. Hay (14)........................300 *Main St.*

FLORIDA

Miami
W. Carroll Wilson (21)..............*In Care of H.O.L.C.*

GEORGIA

Waycross
George Fesperman (5)......................208 *Parker St.*

ILLINOIS

West York
Herschel S. Green (16).......... ....*West York*

MICHIGAN

Detroit
Arthur A. May (24).....*HOLC, 9th Floor, Natl. Bk. Bldg.*

Grand Rapids
Peter Hock (19)..................750 *Leonard St., N. W.*

Muskegon
William Bush (3)..........................38 *Diana Ave.*

NEW JERSEY

Elizabeth
R. Mason Kirkland (15)....................125 *Broad St.*
James Rosensohn (22)......................125 *Broad St.*

Keyport
Samuel De Bow Walker (10)...........101 *Atlantic Ave.*

NEW YORK

Mount Vernon
Henry F. Linsmann (17)...............126 *Burkewood Rd.*

Brooklyn
Alfred R. Marcks (25)......................9 *DeKalb Ave.*

Bronxville
Raymond S. DeMott (26) .... *Pondfield Rd.*

PENNSYLVANIA

Williamsport
Fred B. Wetzel (12)......................25 *W. Third St.*

RHODE ISLAND

Pawtucket
Leo V. Boyle (4)............................44 *Broad St.*

TEXAS

Austin
Josh Ewing (8).......................704 *Littlefield Bldg.*
Wilhelmine B. Sheffield (20)..............207 *W. 7th St.*

Dallas
Alfred J. Beilharz (13)..............6401 *Hillcrest Ave.*

WEST VIRGINIA

Wheeling
Harry C. Miller (7)............313 *Wheeling Steel Bldg.*

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